

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

FINANCIAL STATEMENT AND
FEDERAL SINGLE AUDIT REPORT
OF

CITY OF VALPARAISO
PORTER COUNTY, INDIANA

January 1, 2012 to December 31, 2012



FILED
09/16/2013

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SCHEDULE OF OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk-Treasurer	Sharon Emerson Swihart	01-01-12 to 12-31-15
Mayor	Jon Costas	01-01-12 to 12-31-15
President of the Board of Public Works and Safety	Jon Costas	01-01-12 to 12-31-15
President of the Common Council	Jan Dick	01-01-12 to 12-31-13
City Administrator	Bill Oeding	01-01-12 to 12-31-13
Superintendent of Utilities	John Hardwick Steve Poulos	01-01-12 to 09-10-12 09-11-12 to 12-31-13
Controller of Utilities	Richard Freeman	01-01-12 to 12-31-13



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AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT

TO: THE OFFICIALS OF THE CITY OF VALPARAISO, PORTER COUNTY, INDIANA

Report on the Financial Statement

We have audited the accompanying financial statement of the City of Valparaiso (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the financial reporting provisions of the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6). Management is responsible for and has determined that the regulatory basis of accounting, as established by the Indiana State Board of Accounts, is an acceptable basis of presentation. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As discussed in Note 1 of the financial statement, the City prepares its financial statement on the prescribed basis of accounting that demonstrates compliance with the reporting requirements established by the Indiana State Board of Accounts as allowed by state statute (IC 5-11-1-6), which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the *Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles* paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position and results of operations of the City for the year ended December 31, 2012.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the financial position and results of operations of the City for the year ended December 31, 2012, in accordance with the financial reporting provisions of the Indiana State Board of Accounts described in Note 1.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 23, 2013, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Accompanying Information

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the *U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statement. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statement. The information has been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statement taken as a whole.

INDEPENDENT AUDITOR'S REPORT
(Continued)

Our audit was conducted for the purpose of forming an opinion on the City's financial statement. The Combining Schedule of Receipts, Disbursements, and Cash and Investment Balances – Regulatory Basis, Schedule of Payables and Receivables, Schedule of Leases and Debt, and Schedule of Capital Assets, as listed in the Table of Contents, are presented for additional analysis and are not required parts of the financial statement. They have not been subjected to the auditing procedures applied by us in the audit of the financial statement and, accordingly, we express no opinion on them.

A handwritten signature in black ink, appearing to read "B. Hartman", written in a cursive style.

Bruce Hartman
State Examiner

May 23, 2013



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

TO: THE OFFICIALS OF THE CITY OF VALPARAISO, PORTER COUNTY, INDIANA

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of the City of Valparaiso (City), which comprises the financial position and results of operations for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated May 23, 2013, wherein we noted the City followed accounting practices the Indiana State Board of Accounts prescribes rather than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of the internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01 to be material weaknesses.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS
(Continued)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2012-01.

City of Valparaiso's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Corrective Action Plan. The City's Corrective Action Plan was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Bruce Hartman
State Examiner

May 23, 2013

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FINANCIAL STATEMENT

The financial statement and accompanying notes were approved by management of the City. The financial statement and notes are presented as intended by the City.

CITY OF VALPARAISO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
General	\$ 2,836,948	\$ 25,305,918	\$ 24,611,261	\$ 3,531,605
Motor Vehicle Highway	1,076,130	1,412,265	1,562,135	926,260
Local Road And Street	680,859	345,217	610,690	415,386
Parking Meter	128,607	97,075	49,222	176,460
Park Nonreverting Operating	340,384	1,271,071	1,272,250	339,205
Emergency Medical Services/Ambulance	503,994	808,886	1,100,680	212,200
Crime Control	10,762	22,940	23,975	9,727
Transportation V Line	1,077,251	786,952	702,429	1,161,774
Law Enforcement Continuing Education	143,590	38,206	32,164	149,632
Unsafe Building	61,666	3,900	16,900	48,666
Riverboat	711,817	187,966	111,267	788,516
Parks And Recreation	690,993	2,650,985	2,812,934	529,044
Rainy Day	3,727,324	3,000,000	3,197,000	3,530,324
Forfeiture & Seized Asset Fund	3,811	6,750	-	10,561
Levy Excess	50,280	-	50,280	-
Major Moves Construction	241,542	-	191,150	50,392
Cumulative Capital Improvement Cigarette Tax	654,926	84,156	-	739,082
Cumulative Capital Development	269,852	281,195	258,400	292,647
Park Nonreverting Capital	2,407	14,745	-	17,152
Cedit Capital Projects	374,077	2,331,368	2,353,604	351,841
Health Claims	898	5,559,530	5,557,530	2,898
Police Pension	771,492	533,503	681,416	623,579
Fire Pension	733,942	853,641	737,211	850,372
SBA Grant Entech	-	37,015	37,015	-
Rental Registration	4,360	1,145	100	5,405
Park Tree Fund	986	9,101	245	9,842
Park Cash Fund	1,058	1,450	1,450	1,058
Credit Card Fund	30,446	740,407	748,007	22,846
Bike Lockers	-	65	-	65
Police Substance Abuse Grant	-	1,440	-	1,440
UTC Grant	-	-	10,488	(10,488)
Urban Waters Grant	-	-	11,196	(11,196)
Police Bullet Proof Partnership	-	4,200	4,200	-
Historic Preservation	-	2,000	2,000	-
2012 Advanced Refunding Bond	-	72,298	61,590	10,708
Donations	52,249	45,637	57,899	39,987
Railroad Crossing Grant	(9,780)	9,780	-	-
Park Donation	91,623	76,026	62,779	104,870
Cmac Public Works Grant	-	155,462	155,462	-
Secure Our Schools	5,861	203,883	209,744	-
Employee Benefit Plan	85,726	6,165,764	6,048,275	203,215
Grant Tobacco Education	1,389	-	50	1,339

The notes to the financial statement are an integral part of this statement.

CITY OF VALPARAISO
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH AND INVESTMENT BALANCES -
REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

Fund	Cash and Investments 01-01-12	Receipts	Disbursements	Cash and Investments 12-31-12
Rental Rehabilitation	200,154	-	-	200,154
Police Vehicle Equipment	71,237	21,285	37,908	54,614
Firefighting Fund	34,565	83,265	90,293	27,537
Capital Equipment	-	300,000	299,645	355
Cemetery	203,286	24,100	51,481	175,905
Indiana Police and Fire Pension	79,434	338,018	417,198	254
Park Indiana Sales Tax	1,048	26,411	25,939	1,520
Park Gift Certificates	49,623	14,806	13,221	51,208
Park City Tree Ordinance	1,312	1,200	466	2,046
Park Impact Fees	332,056	239,990	452,671	119,375
Park Creekside Bond Debt Reserve	212,688	258,126	437,086	33,728
Redevelopment Debt Reserve	468,900	-	-	468,900
Transportation Dash	913,474	848,634	707,637	1,054,471
Dash Credit Card Revenue	160,919	177,178	4,744	333,353
Developer Deposits	16,889	-	-	16,889
Justice Assistance Grant	3,774	-	3,774	-
Grant Police Equipment	48,008	-	40,104	7,904
Park Bond & Interest	1,226	357,296	356,800	1,722
Debt Service Other	453,481	504,685	641,957	316,209
Cumulative Sewer	1,314,655	110,147	298,255	1,126,547
2006 Bond Issue	24	-	-	24
2002 Bond Issue	549,929	-	470,291	79,638
Redevelopment Consolidated TIF Area	14,485,912	4,562,129	12,509,766	6,538,275
Payroll	-	11,657,919	11,657,919	-
Sign Deposit	1,000	-	-	1,000
Storm Water Utility-Operating	1,998,792	3,062,867	2,485,520	2,576,139
Storm Water Utility-Bond And Interest	854,926	1,280	-	856,206
Stormwater Board Construction	5,329,656	177,456	1,832,551	3,674,561
Retainage	93,731	24,486	118,217	-
Wastewater Utility-Operating	1,020,923	7,162,676	7,077,101	1,106,498
Wastewater Utility-Bond And Interest	818,765	3,132,500	3,097,149	854,116
Wastewater Utility-Deprec/Improve	2,178,203	1,575,030	2,548,152	1,205,081
Wastewater Utility Debt Reserve	936,710	16,450	-	953,160
Water Utility-Operating	1,217,857	7,375,617	7,501,735	1,091,739
Water Utility-Bond And Interest	195,519	776,223	777,900	193,842
Water Utility-Customer Deposit	213,287	173	737	212,723
Water Utility-Construction	496,034	462	120,000	376,496
Water Utility-Improvement	655,426	1,992,000	1,946,944	700,482
Water Utility Debt Reserve	784,220	-	-	784,220
Totals	<u>\$ 51,755,113</u>	<u>\$ 97,944,351</u>	<u>\$ 109,366,159</u>	<u>\$ 40,333,305</u>

The notes to the financial statement are an integral part of this statement.

CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENT

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The City was established under the laws of the State of Indiana. The City operates under a Council-Mayor form of government and provides some or all of the following services: public safety (police and fire), highways and streets, health and social services, culture and recreation, public improvements, planning and zoning, general administrative services, water, wastewater, storm water, trash, and urban redevelopment and housing.

The accompanying financial statement presents the financial information for the City.

B. Basis of Accounting

The financial statement is reported on a regulatory basis of accounting prescribed by the State Board of Accounts in accordance with state statute (IC 5-11-1-6), which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Receipts are recorded when received and disbursements are recorded when paid.

The regulatory basis of accounting differs from accounting principles generally accepted in the United States of America in that receipts are recognized when received in cash, rather than when earned, and disbursements are recognized when paid, rather than when a liability is incurred.

C. Cash and Investments

Investments are stated at cost. Any changes in fair value of the investments are reported as receipts in the year of the sale of the investment.

D. Receipts

Receipts are presented in the aggregate on the face of the financial statement. The aggregate receipts include the following sources:

Taxes which can include one or more of the following: property taxes, certified shares (local option tax), property tax replacement credit (local option tax), county option income tax, wheel tax, innkeepers tax, food and beverage tax, county economic development income tax, boat and trailer excise tax, county adjusted gross income tax, and other taxes that are set by the City.

Licenses and permits which include amounts received from businesses, occupations, or nonbusinesses that must be licensed before doing business within the government's jurisdiction or permits levied according to the benefits presumably conferred by the permit. Examples of licenses and permits include: peddler licenses, dog tax licenses, auctioneer license, building and planning permits, demolition permits, electrical permits, sign permits, and gun permits.

Intergovernmental receipts which include receipts from other governments in the form of operating grants, entitlements, or payments in lieu of taxes. Examples of this type of receipts include, but are not limited to: federal grants, state grants, cigarette tax distributions received from the state, motor vehicle highway distribution received from the state,

CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENT
(Continued)

local road and street distribution received from the state, financial institution tax received from the state, auto excise surtax received from the state, commercial vehicle excise tax received from the state, major moves distributions received from the state, and riverboat receipts received from the county.

Charges for services which can include, but are not limited to the following: planning commission charges, building department charges, copies of public records, copy machine charges, accident report copies, gun permit applications, recycling fees, dog pound fees, emergency medical service fees, park rental fees, swimming pool receipts, cable tv receipts, ordinance violations, fines and fees, bond forfeitures, court costs, and court receipts.

Fines and forfeits which include receipts derived from fines and penalties imposed for the commission of statutory offenses, violation of lawful administrative rules and regulations (fines), and for the neglect of official duty and monies derived from confiscating deposits held as performance guarantees (forfeitures).

Utility fees which are comprised mostly of charges for current services.

Penalties which include fees received for late payments.

Other receipts which include amounts received from various sources which can include, but are not limited to the following: net proceeds from borrowings; interfund loan activity; transfers authorized by statute, ordinance, resolution or court order; internal service receipts; and fiduciary receipts.

E. Disbursements

Disbursements are presented in the aggregate on the face of the financial statement. The aggregate disbursements include the following uses:

Personal services include outflows for salaries, wages, and related employee benefits provided for all persons employed. In those units where sick leave, vacation leave, overtime compensation, and other such benefits are appropriated separately, such payments would also be included.

Supplies which include articles and commodities that are entirely consumed and materially altered when used and/or show rapid depreciation after use for a short period of time. Examples of supplies include office supplies, operating supplies, and repair and maintenance supplies.

Other services and charges which include, but are not limited to: professional services, communication and transportation, printing and advertising, insurance, utility services, repairs and maintenance, and rental charges.

Debt service principal and interest which include fixed obligations resulting from financial transactions previously entered into by the City. It includes all expenditures for the reduction of the principal and interest of the City's general obligation indebtedness.

Capital outlay which include all outflows for land, infrastructure, buildings, improvements, and machinery and equipment having an appreciable and calculable period of usefulness.

CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENT
(Continued)

Utility operating expenses which include all outflows for operating the utilities.

Other disbursements which include, but are not limited to the following: interfund loan payments, loans made to other funds, internal service disbursements, and transfers out that are authorized by statute, ordinance, resolution, or court order.

F. Interfund Transfers

The City may, from time to time, transfer money from one fund to another. These transfers, if any, are included as a part of the receipts and disbursements of the affected funds and as a part of total receipts and disbursements. The transfers are used for cash flow purposes as provided by various statutory provisions.

G. Fund Accounting

Separate funds are established, maintained, and reported by the City. Each fund is used to account for money received from and used for specific sources and uses as determined by various regulations. Restrictions on some funds are set by statute while other funds are internally restricted by the City. The money accounted for in a specific fund may only be available for use for certain, legally restricted purposes. Additionally, some funds are used to account for assets held by the City in a trustee capacity as an agent of individuals, private organizations, other funds, or other governmental units and therefore the funds cannot be used for any expenditures of the unit itself.

Note 2. Budgets

The operating budget is initially prepared and approved at the local level. The fiscal officer of the City submits a proposed operating budget to the governing board for the following calendar year. The budget is advertised as required by law. Prior to adopting the budget, the governing board conducts public hearings and obtains taxpayer comments. Prior to November 1, the governing board approves the budget for the next year. The budget for funds for which property taxes are levied or highway use taxes are received is subject to final approval by the Indiana Department of Local Government Finance.

Note 3. Property Taxes

Property taxes levied are collected by the County Treasurer and are scheduled to be distributed to the City in June and December; however, situations can arise which would delay the distributions. State statute (IC 6-1.1-17-16) requires the Indiana Department of Local Government Finance to establish property tax rates and levies by February 15. These rates were based upon the preceding year's March 1 (lien date) assessed valuations adjusted for various tax credits. Taxable property is assessed at 100 percent of the true tax value (determined in accordance with rules and regulations adopted by the Indiana Department of Local Government Finance). Taxes may be paid in two equal installments which normally become delinquent if not paid by May 10 and November 10, respectively.

CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENT
(Continued)

Note 4. *Deposits and Investments*

Deposits, made in accordance with state statute (IC 5-13), with financial institutions in the State of Indiana at year end should be entirely insured by the Federal Depository Insurance Corporation or by the Indiana Public Deposit Insurance Fund. This includes any deposit accounts issued or offered by a qualifying financial institution.

State statutes authorize the City to invest in securities including, but not limited to, federal government securities, repurchase agreements, and certain money market mutual funds. Certain other statutory restrictions apply to all investments made by local governmental units.

Note 5. *Risk Management*

The City may be exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; medical benefits to employees, retirees, and dependents; and natural disasters.

These risks can be mitigated through the purchase of insurance, establishment of a self-insurance fund, and/or participation in a risk pool. The purchase of insurance transfers the risk to an independent third party. The establishment of a self-insurance fund allows the City to set aside money for claim settlements. The self-insurance fund would be included in the financial statement. The purpose of participation in a risk pool is to provide a medium for the funding and administration of the risks.

Note 6. *Pension Plans*

A. Public Employees' Retirement Fund

Plan Description

The Indiana Public Employees' Retirement Fund (PERF) is a defined benefit pension plan. PERF is an agent multiple-employer public employee retirement system, which provides retirement benefits to plan members and beneficiaries. All full-time employees are eligible to participate in this defined benefit plan. State statutes (IC 5-10.2 and 5-10.3) govern, through the Indiana Public Retirement System (INPRS) Board, most requirements of the system, and give the City authority to contribute to the plan. The PERF retirement benefit consists of the pension provided by employer contributions plus an annuity provided by the member's annuity savings account. The annuity savings account consists of members' contributions, set by state statute at 3 percent of compensation, plus the interest credited to the member's account. The employer may elect to make the contributions on behalf of the member.

INPRS administers the plan and issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENT
(Continued)

Funding Policy and Annual Pension Cost

The contribution requirements of the plan members for PERF are established by the Board of Trustees of INPRS.

B. 1925 Police Officers' Pension Plan

Plan Description

The 1925 Police Officers' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-6). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1925 Police Officers' Pension Plan are established by state statute.

On Behalf Payments

The 1925 Police Officers' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

C. 1937 Firefighters' Pension Plan

Plan Description

The 1937 Firefighters' Pension Plan is a single-employer defined benefit pension plan. The plan is administered by the local pension board as authorized by state statute (IC 36-8-7). The plan provides retirement, disability, and death benefits to plan members and beneficiaries. The plan was established by the plan administrator, as provided by state statute. The plan administrator does not issue a publicly available financial report that includes financial statements and required supplementary information of the plan.

Funding Policy

The contribution requirements of plan members for the 1937 Firefighters' Pension Plan are established by state statute.

On Behalf Payments

The 1937 Firefighters' Pension Plan is funded by the State of Indiana through the Indiana Public Retirement System as provided under Indiana Code 5-10.3-11.

CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENT
(Continued)

D. 1977 Police Officers' and Firefighters' Pension and Disability Fund

Plan Description

The 1977 Police Officers' and Firefighters' Pension and Disability Fund is a cost-sharing multiple-employer defined benefit pension plan administered by the Indiana Public Retirement System (INPRS) for all police officers and firefighters hired after April 30, 1977.

State statute (IC 36-8-8) regulates the operations of the system, including benefits, vesting, and requirements for contributions by employers and by employees. Covered employees may retire at age 52 with 20 years of service. An employee with 20 years of service may leave service, but will not receive benefits until reaching age 52. The plan also provides for death and disability benefits.

INPRS issues a publicly available financial report that includes financial statements and required supplementary information for the plan as a whole and for its participants. That report may be obtained by contacting:

Indiana Public Retirement System
1 North Capital Street, Suite 001
Indianapolis, IN 46204
Ph. (888) 526-1687

Funding Policy

The contribution requirements of plan members and the City are established by the Board of Trustees of INPRS.

Note 7. Cash Balance Deficits

The financial statement contains some funds with deficits in cash. This is a result of funds being set up for reimbursable grants. The reimbursements for expenditures made by the City were not received by December 31, 2012.

Note 8. Subsequent Events

On February 16, 2013, the Utilities Board awarded the bid from G.E. Marshall in the amount of \$2,881,827 for the Chautauqua Park Stormwater Project.

On March 20, 2013, the Redevelopment Commission approved the local match of \$226,739 for the Five Point Roundabout. There will be a federal grant for this project which is passed through the Indiana Department of Transportation. The State opened the bids and it was determined that Walsh and Kelly was the low bidder for the project in the amount of \$2,267,385. The contract for the construction inspection and management services was awarded to American Structure Point, not to exceed \$260,099, which will be reimbursed 90 percent with the federal grant through the Indiana Department of Transportation.

CITY OF VALPARAISO
NOTES TO FINANCIAL STATEMENT
(Continued)

On April 8, 2013, the Common Council approved Resolution 4, 2013, a preliminary determination to enter into a lease for the new Public Works Building with the Building Corporation. The City and the Building Corporation will finance all or any of the project through one or more series of bonds issued by the Building Corporation. The lease will have a term of no longer than 17 years, and the amount would not be greater than \$5,250,000.

SUPPLEMENTARY INFORMATION – UNAUDITED

For additional financial information, the City's Annual Report information can be found on the Gateway website: <https://gateway.ifionline.org/>.

Differences may be noted between the financial information presented in the financial statement contained in this report and the financial information presented in the Annual Report of the City which is referenced above. These differences, if any, are due to adjustments made to the financial information during the course of the audit. This is a common occurrence in any financial statement audit. The financial information presented in this report is audited information, and the accuracy of such information can be determined by reading the opinion given in the Independent Auditor's Report.

The supplementary information presented was approved by management of the City. It is presented as intended by the City.

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012

	General	Motor Vehicle Highway	Local Road And Street	Parking Meter	Park Nonreverting Operating	Emergency Medical Services/Ambulance	Crime Control
Cash and investments - beginning	\$ 2,836,948	\$ 1,076,130	\$ 680,859	\$ 128,607	\$ 340,384	\$ 503,994	\$ 10,762
Receipts:							
Taxes	12,243,642	512,179	-	-	-	-	-
Licenses and permits	638,597	5,600	-	39,520	-	-	-
Intergovernmental	1,952,463	855,281	310,842	-	-	-	22,940
Charges for services	3,009,686	-	-	-	1,271,071	-	-
Fines and forfeits	4,044	-	-	57,555	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	7,457,486	39,205	34,375	-	-	808,886	-
Total receipts	25,305,918	1,412,265	345,217	97,075	1,271,071	808,886	22,940
Disbursements:							
Personal services	11,999,427	972,624	-	38,061	-	-	23,975
Supplies	806,885	265,251	100,000	412	-	-	-
Other services and charges	3,008,410	324,260	510,690	10,711	-	680	-
Debt service - principal and interest	3,683,908	-	-	-	-	-	-
Capital outlay	25,608	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	5,087,023	-	-	38	1,272,250	1,100,000	-
Total disbursements	24,611,261	1,562,135	610,690	49,222	1,272,250	1,100,680	23,975
Excess (deficiency) of receipts over disbursements	694,657	(149,870)	(265,473)	47,853	(1,179)	(291,794)	(1,035)
Cash and investments - ending	\$ 3,531,605	\$ 926,260	\$ 415,386	\$ 176,460	\$ 339,205	\$ 212,200	\$ 9,727

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	Transportation V Line	Law Enforcement Continuing Education	Unsafe Building	Riverboat	Parks And Recreation	Rainy Day	Forfeiture & Seized Asset Fund
Cash and investments - beginning	\$ 1,077,251	\$ 143,590	\$ 61,666	\$ 711,817	\$ 690,993	\$ 3,727,324	\$ 3,811
Receipts:							
Taxes	-	-	-	-	1,602,540	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	226,877	-	-	187,966	120,593	2,000,000	-
Charges for services	230,075	37,981	-	-	107,852	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	330,000	225	3,900	-	820,000	1,000,000	6,750
Total receipts	786,952	38,206	3,900	187,966	2,650,985	3,000,000	6,750
Disbursements:							
Personal services	8,732	-	-	-	1,847,488	-	-
Supplies	97,005	-	-	-	133,726	-	-
Other services and charges	556,009	32,154	16,900	111,267	388,775	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	18,780	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	40,683	10	-	-	424,165	3,197,000	-
Total disbursements	702,429	32,164	16,900	111,267	2,812,934	3,197,000	-
Excess (deficiency) of receipts over disbursements	84,523	6,042	(13,000)	76,699	(161,949)	(197,000)	6,750
Cash and investments - ending	\$ 1,161,774	\$ 149,632	\$ 48,666	\$ 788,516	\$ 529,044	\$ 3,530,324	\$ 10,561

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	Levy Excess	Major Moves Construction	Cumulative Capital Improvement Cigarette Tax	Cumulative Capital Development	Park Nonreverting Capital	Cedit Capital Projects	Health Claims
Cash and investments - beginning	\$ 50,280	\$ 241,542	\$ 654,926	\$ 269,852	\$ 2,407	\$ 374,077	\$ 898
Receipts:							
Taxes	-	-	-	260,050	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	84,156	21,145	-	2,330,618	-
Charges for services	-	-	-	-	14,745	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	750	5,559,530
Total receipts	-	-	84,156	281,195	14,745	2,331,368	5,559,530
Disbursements:							
Personal services	-	-	-	-	-	-	5,557,530
Supplies	-	-	-	75,000	-	-	-
Other services and charges	-	191,150	-	-	-	1,773,604	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	183,400	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	50,280	-	-	-	-	580,000	-
Total disbursements	50,280	191,150	-	258,400	-	2,353,604	5,557,530
Excess (deficiency) of receipts over disbursements	(50,280)	(191,150)	84,156	22,795	14,745	(22,236)	2,000
Cash and investments - ending	\$ -	\$ 50,392	\$ 739,082	\$ 292,647	\$ 17,152	\$ 351,841	\$ 2,898

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	Police Pension	Fire Pension	SBA Grant Entech	Rental Registration	Park Tree Fund	Park Cash Fund	Credit Card Fund
Cash and investments - beginning	\$ 771,492	\$ 733,942	\$ -	\$ 4,360	\$ 986	\$ 1,058	\$ 30,446
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	1,145	-	-	-
Intergovernmental	533,503	853,641	37,015	-	-	-	-
Charges for services	-	-	-	-	9,101	1,450	740,407
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	-
Total receipts	533,503	853,641	37,015	1,145	9,101	1,450	740,407
Disbursements:							
Personal services	669,294	737,180	-	-	-	-	-
Supplies	22	31	-	-	-	-	-
Other services and charges	100	-	37,015	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	12,000	-	-	100	245	1,450	748,007
Total disbursements	681,416	737,211	37,015	100	245	1,450	748,007
Excess (deficiency) of receipts over disbursements	(147,913)	116,430	-	1,045	8,856	-	(7,600)
Cash and investments - ending	\$ 623,579	\$ 850,372	\$ -	\$ 5,405	\$ 9,842	\$ 1,058	\$ 22,846

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	Bike Lockers	Police Substance Abuse Grant	UTC Grant	Urban Waters Grant	Police Bullet Proof Partnership	Historic Preservation	2012 Advanced Refunding Bond
Cash and investments - beginning	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	1,440	-	-	4,200	2,000	-
Charges for services	65	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	-	72,298
Total receipts	65	1,440	-	-	4,200	2,000	72,298
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	10,488	-	4,200	-	-
Other services and charges	-	-	-	11,196	-	2,000	61,590
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	-	-
Total disbursements	-	-	10,488	11,196	4,200	2,000	61,590
Excess (deficiency) of receipts over disbursements	65	1,440	(10,488)	(11,196)	-	-	10,708
Cash and investments - ending	\$ 65	\$ 1,440	\$ (10,488)	\$ (11,196)	\$ -	\$ -	\$ 10,708

CITY OF VALPARAISO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Donations	Railroad Crossing Grant	Park Donation	Cmac Public Works Grant	Secure Our Schools	Employee Benefit Plan	Grant Tobacco Education
Cash and investments - beginning	\$ 52,249	\$ (9,780)	\$ 91,623	\$ -	\$ 5,861	\$ 85,726	\$ 1,389
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	9,780	-	155,462	203,883	-	-
Charges for services	-	-	76,026	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	45,637	-	-	-	-	6,165,764	-
Total receipts	45,637	9,780	76,026	155,462	203,883	6,165,764	-
Disbursements:							
Personal services	-	-	-	-	62,680	439,916	-
Supplies	-	-	-	-	-	-	-
Other services and charges	57,899	-	-	-	147,064	48,829	50
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	155,462	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	62,779	-	-	5,559,530	-
Total disbursements	57,899	-	62,779	155,462	209,744	6,048,275	50
Excess (deficiency) of receipts over disbursements	(12,262)	9,780	13,247	-	(5,861)	117,489	(50)
Cash and investments - ending	\$ 39,987	\$ -	\$ 104,870	\$ -	\$ -	\$ 203,215	\$ 1,339

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	Rental Rehabilitation	Police Vehicle Equipment	Firefighting Fund	Capital Equipment	Cemetery	Indiana Police and Fire Pension	Park Indiana Sales Tax
Cash and investments - beginning	\$ 200,154	\$ 71,237	\$ 34,565	\$ -	\$ 203,286	\$ 79,434	\$ 1,048
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	53,265	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	21,285	-	300,000	24,100	-	26,411
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	30,000	-	-	338,018	-
Total receipts	-	21,285	83,265	300,000	24,100	338,018	26,411
Disbursements:							
Personal services	-	-	67,942	-	-	-	-
Supplies	-	-	4,134	-	-	-	-
Other services and charges	-	37,908	18,217	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-	-
Capital outlay	-	-	-	299,645	51,481	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	-	-	-	-	417,198	25,939
Total disbursements	-	37,908	90,293	299,645	51,481	417,198	25,939
Excess (deficiency) of receipts over disbursements	-	(16,623)	(7,028)	355	(27,381)	(79,180)	472
Cash and investments - ending	\$ 200,154	\$ 54,614	\$ 27,537	\$ 355	\$ 175,905	\$ 254	\$ 1,520

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	Park Gift Certificates	Park City Tree Ordinance	Park Impact Fees	Park Creekside Bond Debt Reserve	Redevelopment Debt Reserve	Transportation Dash	Dash Credit Card Revenue
Cash and investments - beginning	\$ 49,623	\$ 1,312	\$ 332,056	\$ 212,688	\$ 468,900	\$ 913,474	\$ 160,919
Receipts:							
Taxes	-	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	681,505	-
Charges for services	14,806	1,200	239,990	258,126	-	167,127	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	-	-	2	177,178
Total receipts	14,806	1,200	239,990	258,126	-	848,634	177,178
Disbursements:							
Personal services	-	-	-	-	-	20,666	-
Supplies	-	-	-	-	-	94,593	-
Other services and charges	-	-	-	-	-	444,501	4,744
Debt service - principal and interest	-	-	-	237,086	-	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	13,221	466	452,671	200,000	-	147,877	-
Total disbursements	13,221	466	452,671	437,086	-	707,637	4,744
Excess (deficiency) of receipts over disbursements	1,585	734	(212,681)	(178,960)	-	140,997	172,434
Cash and investments - ending	\$ 51,208	\$ 2,046	\$ 119,375	\$ 33,728	\$ 468,900	\$ 1,054,471	\$ 333,353

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	Developer Deposits	Justice Assistance Grant	Grant Police Equipment	Park Bond & Interest	Debt Service Other	Cumulative Sewer	2006 Bond Issue
Cash and investments - beginning	\$ 16,889	\$ 3,774	\$ 48,008	\$ 1,226	\$ 453,481	\$ 1,314,655	\$ 24
Receipts:							
Taxes	-	-	-	265,330	351,133	-	-
Licenses and permits	-	-	-	-	-	110,147	-
Intergovernmental	-	-	-	19,966	28,552	-	-
Charges for services	-	-	-	72,000	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	-	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	-	-	-	125,000	-	-
Total receipts	-	-	-	357,296	504,685	110,147	-
Disbursements:							
Personal services	-	-	-	-	-	-	-
Supplies	-	-	-	-	-	-	-
Other services and charges	-	-	24,304	-	3,124	298,255	-
Debt service - principal and interest	-	-	-	356,800	638,833	-	-
Capital outlay	-	-	-	-	-	-	-
Utility operating expenses	-	-	-	-	-	-	-
Other disbursements	-	3,774	15,800	-	-	-	-
Total disbursements	-	3,774	40,104	356,800	641,957	298,255	-
Excess (deficiency) of receipts over disbursements	-	(3,774)	(40,104)	496	(137,272)	(188,108)	-
Cash and investments - ending	\$ 16,889	\$ -	\$ 7,904	\$ 1,722	\$ 316,209	\$ 1,126,547	\$ 24

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	2002 Bond Issue	Redevelopment Consolidated TIF Area	Payroll	Sign Deposit	Storm Water Utility-Operating	Storm Water Utility-Bond And Interest	Stormwater Board Construction
Cash and investments - beginning	\$ 549,929	\$ 14,485,912	\$ -	\$ 1,000	\$ 1,998,792	\$ 854,926	\$ 5,329,656
Receipts:							
Taxes	-	3,849,440	-	-	-	-	-
Licenses and permits	-	27,040	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-	-
Charges for services	-	377,263	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-	-
Utility fees	-	-	-	-	2,527,642	-	-
Penalties	-	-	-	-	-	-	-
Other receipts	-	308,386	11,657,919	-	535,225	1,280	177,456
Total receipts	-	4,562,129	11,657,919	-	3,062,867	1,280	177,456
Disbursements:							
Personal services	-	178,255	-	-	-	-	-
Supplies	-	4,624	-	-	-	-	-
Other services and charges	448,875	378,321	-	-	-	-	-
Debt service - principal and interest	-	724,313	-	-	-	-	-
Capital outlay	21,416	8,459,836	-	-	-	-	-
Utility operating expenses	-	-	-	-	1,475,920	-	1,832,551
Other disbursements	-	2,764,417	11,657,919	-	1,009,600	-	-
Total disbursements	470,291	12,509,766	11,657,919	-	2,485,520	-	1,832,551
Excess (deficiency) of receipts over disbursements	(470,291)	(7,947,637)	-	-	577,347	1,280	(1,655,095)
Cash and investments - ending	\$ 79,638	\$ 6,538,275	\$ -	\$ 1,000	\$ 2,576,139	\$ 856,206	\$ 3,674,561

CITY OF VALPARAISO
 COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
 CASH AND INVESTMENT BALANCES - REGULATORY BASIS
 For The Year Ended December 31, 2012
 (Continued)

	Retainage	Wastewater Utility-Operating	Wastewater Utility-Bond And Interest	Wastewater Utility-Deprec/Improve	Wastewater Utility Debt Reserve	Water Utility-Operating
Cash and investments - beginning	\$ 93,731	\$ 1,020,923	\$ 818,765	\$ 2,178,203	\$ 936,710	\$ 1,217,857
Receipts:						
Taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Intergovernmental	-	-	-	-	-	-
Charges for services	-	-	-	-	-	-
Fines and forfeits	-	-	-	-	-	-
Utility fees	-	6,898,169	-	-	-	5,392,508
Penalties	-	59,843	-	-	-	54,616
Other receipts	24,486	204,664	3,132,500	1,575,030	16,450	1,928,493
Total receipts	24,486	7,162,676	3,132,500	1,575,030	16,450	7,375,617
Disbursements:						
Personal services	-	-	-	-	-	-
Supplies	-	-	-	-	-	-
Other services and charges	-	-	-	-	-	-
Debt service - principal and interest	-	-	-	-	-	-
Capital outlay	-	-	-	2,433,923	-	258,131
Utility operating expenses	-	4,411,832	-	114,229	-	4,196,496
Other disbursements	118,217	2,665,269	3,097,149	-	-	3,047,108
Total disbursements	118,217	7,077,101	3,097,149	2,548,152	-	7,501,735
Excess (deficiency) of receipts over disbursements	(93,731)	85,575	35,351	(973,122)	16,450	(126,118)
Cash and investments - ending	\$ -	\$ 1,106,498	\$ 854,116	\$ 1,205,081	\$ 953,160	\$ 1,091,739

CITY OF VALPARAISO
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND
CASH AND INVESTMENT BALANCES - REGULATORY BASIS
For The Year Ended December 31, 2012
(Continued)

	Water Utility-Bond And Interest	Water Utility-Customer Deposit	Water Utility-Construction	Water Utility-Improvement	Water Utility Debt Reserve	Totals
Cash and investments - beginning	\$ 195,519	\$ 213,287	\$ 496,034	\$ 655,426	\$ 784,220	\$ 51,755,113
Receipts:						
Taxes	-	-	-	-	-	19,084,314
Licenses and permits	-	-	-	-	-	875,314
Intergovernmental	-	-	-	-	-	10,643,828
Charges for services	-	-	-	-	-	7,000,767
Fines and forfeits	-	-	-	-	-	61,599
Utility fees	-	173	-	-	-	14,818,492
Penalties	-	-	-	-	-	114,459
Other receipts	776,223	-	462	1,992,000	-	45,345,578
Total receipts	776,223	173	462	1,992,000	-	97,944,351
Disbursements:						
Personal services	-	-	-	-	-	22,623,770
Supplies	-	-	-	-	-	1,596,371
Other services and charges	-	-	-	-	-	8,948,602
Debt service - principal and interest	-	-	-	-	-	5,640,940
Capital outlay	-	-	-	1,942,532	-	13,850,214
Utility operating expenses	-	-	-	4,412	-	12,035,440
Other disbursements	777,900	737	120,000	-	-	44,670,822
Total disbursements	777,900	737	120,000	1,946,944	-	109,366,159
Excess (deficiency) of receipts over disbursements	(1,677)	(564)	(119,538)	45,056	-	(11,421,808)
Cash and investments - ending	\$ 193,842	\$ 212,723	\$ 376,496	\$ 700,482	\$ 784,220	\$ 40,333,305

CITY OF VALPARAISO
SCHEDULE OF PAYABLES AND RECEIVABLES
December 31, 2012

<u>Government or Enterprise</u>	<u>Accounts Payable</u>	<u>Accounts Receivable</u>
Storm Water	\$ 14,367	\$ 93,648
Wastewater	141,129	483,076
Water	57,274	368,347
Governmental activities	<u>953,789</u>	<u>21,684</u>
Totals	<u>\$ 1,166,559</u>	<u>\$ 966,755</u>

CITY OF VALPARAISO
SCHEDULE OF LEASES AND DEBT
December 31, 2012

Lessor	Purpose	Annual Lease Payment	Lease Beginning Date	Lease Ending Date
Governmental activities:				
Centier Bank	Various Public Works Equipment	\$ 165,000	01-01-09	01-01-14
Centier Bank	(2) Side Loaded Garbage Trucks	75,000	10-01-09	01-01-14
De Lage Landen Public Finance	Electric Golf Carts	14,639	06-01-10	06-01-15
Ford Motor Credit	Squad Cars	45,068	06-08-10	06-08-13
Ford Motor Credit	Squad Cars	37,045	07-20-12	07-20-15
Harris Bank	Fire Truck	93,934	01-01-12	01-01-16
LaPorte Chrysler	Squad Cars	39,100	12-01-11	11-30-14
Musco Sports Lighting LLC	Park Lighting	11,994	07-31-08	08-31-14
Wells Fargo	Golf Equipment	11,350	01-15-10	12-15-14
Western Equipment Finance	AR-522 Mower	12,834	09-13-12	08-13-16
Western Finance & Lease	Golf Course Equipment	40,499	01-15-10	12-15-14
Centier Bank	Maack Dump Trucks (2)	78,767	08-29-12	06-26-17
Total governmental activities		<u>625,230</u>		
Storm Water:				
Centier Bank	Street Sweeper	<u>33,122</u>	12-14-14	12-14-14
Wastewater:				
Horizon Bank	2011 Tandem Dump Truck	23,896	10-14-10	10-14-13
Horizon Bank	2011 Vactor Truck	<u>85,812</u>	03-04-11	03-04-14
Total Wastewater		<u>109,708</u>		
Water:				
Horizon Bank	2010 Hydro Excavator	<u>64,040</u>	01-13-10	01-13-14
Total of annual lease payments		<u>\$ 832,100</u>		

Type	Description of Debt	Purpose	Ending Principal Balance	Principal and Interest Due Within One Year
Governmental activities:				
General obligation bonds	2006 GO Bonds		\$ 3,730,000	\$ 310,504
General obligation bonds	1998 Park GO Bond		350,000	8,050
General obligation bonds	2012 Refunding Bond		3,350,000	309,096
Revenue bonds	Park & Recreation Refunding Bonds of 2004		3,120,000	119,390
Revenue bonds	Redevelopment District Tax Increment Revenue Bonds Series 2009		2,605,000	48,844
Revenue bonds	Redevelopment District Special Taxing District Bonds Series 2006A		3,390,000	68,975
Total governmental activities			<u>16,545,000</u>	<u>864,859</u>
Storm Water:				
Revenue bonds	Stormwater Mgmt. District Revenue Bonds of 2011 Series B		2,045,000	133,356
Revenue bonds	Stormwater Mgmt. District Revenue Bonds of 2011 Series A		<u>5,720,000</u>	<u>287,025</u>
Total Storm Water			<u>7,765,000</u>	<u>420,381</u>
Wastewater:				
Revenue bonds	Sewage Works Revenue Bonds of 2000		9,350,000	1,302,505
Revenue bonds	Sewage Works Revenue Bonds of 2007		10,900,000	522,950
Revenue bonds	Sewage Works Revenue Bonds of 2011		<u>1,195,000</u>	<u>106,337</u>
Total Wastewater			<u>21,445,000</u>	<u>1,931,792</u>
Water:				
Revenue bonds	Waterworks Revenue Bonds of 2002		5,300,000	666,888
Revenue bonds	Waterworks Revenue Bonds of 2010		<u>2,200,000</u>	<u>109,080</u>
Total Water			<u>7,500,000</u>	<u>775,968</u>
Totals			<u>\$ 53,255,000</u>	<u>\$ 3,993,000</u>

CITY OF VALPARAISO
SCHEDULE OF CAPITAL ASSETS
December 31, 2012

Capital assets are reported at actual or estimated historical cost based on appraisals or deflated current replacement cost. Contributed or donated assets are reported at estimated fair value at the time received.

	Ending Balance
Governmental activities:	
Land	\$ 8,510,770
Infrastructure	84,607,600
Buildings	17,538,360
Improvements other than buildings	6,018,952
Machinery, equipment, and vehicles	9,492,893
Construction in progress	<u>90,000</u>
Total governmental activities	<u>126,258,575</u>
Storm Water:	
Infrastructure	<u>12,924,443</u>
Wastewater:	
Land	575,915
Infrastructure	50,726,898
Buildings	21,175,883
Improvements other than buildings	12,406,403
Machinery, equipment, and vehicles	10,312,495
Books and other	<u>143,876</u>
Total Wastewater	<u>95,341,470</u>
Water:	
Land	348,907
Buildings	4,342,398
Improvements other than buildings	34,617,768
Machinery, equipment, and vehicles	<u>17,624,828</u>
Total Water	<u>56,933,901</u>
Total capital assets	<u><u>\$ 291,458,389</u></u>

CITY OF VALPARAISO
AUDIT RESULTS AND COMMENTS

ERRORS ON CLAIMS

None of the claims paid from the Redevelopment Commission (TIF) Fund had Board approval. This error resulted in approximately \$12,331,511 of expenditures which did not have proper Board approval.

Furthermore, at the Water and Water Reclamation Utilities, disbursements for which a purchase order (claim) was not prepared, were not included on the claim docket for approval by the Utilities Service Board. Such disbursements included payroll and related withholding remittances (approx. \$3,574,317), bond and interest remittances via electronic funds transfers (EFTs) (\$2,674,814), and remittance to vendors which were reimbursed from State Revolving Loan Funds (\$1,196,813).

Indiana Code 5-11-10-1.6 states in part:

"(b) As used in this section, 'claim' means a bill or an invoice submitted to a governmental entity for goods or services.

(c) The fiscal officer of a governmental entity may not draw a warrant or check for payment of a claim unless:

- (1) there is a fully itemized invoice or bill for the claim;
- (2) the invoice or bill is approved by the officer or person receiving the goods and services;
- (3) the invoice or bill is filed with the governmental entity's fiscal officer;
- (4) the fiscal officer audits and certifies before payment that the invoice or bill is true and correct; and
- (5) payment of the claim is allowed by the governmental entity's legislative body or the board or official having jurisdiction over allowance of payment of the claim."

COMPENSATION CONTROLS AND COMPLIANCE

The Salary Ordinance adopted by the City Council does not address compensation paid to part-time and temporary employees. The salary ordinance serves as an internal control, in that it provides for a uniform compensation policy to be followed by management and employees. Compensation and benefits were paid to four employees who were included in a test, whom were not included in the salary ordinance. The compensation and benefits paid to these employees was \$37,455.29. The City also paid a grant administrator \$62,019.52 in salary and benefits not addressed in the Salary Ordinance.

All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the legislative body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

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SUPPLEMENTAL AUDIT OF
FEDERAL AWARDS



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

STATE BOARD OF ACCOUNTS
302 WEST WASHINGTON STREET
ROOM E418
INDIANAPOLIS, INDIANA 46204-2769

Telephone: (317) 232-2513
Fax: (317) 232-4711
Web Site: www.in.gov/sboa

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE

TO: THE OFFICIALS OF THE CITY OF VALPARAISO, PORTER COUNTY, INDIANA

Report on Compliance for Each Major Federal Program

We have audited the City of Valparaiso's (City) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Basis for Adverse Opinion on Public Safety Partnership and Community Policing Grants

As described in items 2012-03, 2012-04, 2012-05, 2012-06, and 2012-07 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Allowable Costs; Cash Management; Equipment and Real Property Management; Period of Availability; and Reporting that are applicable to its Public Safety Partnership and Community Policing Grants. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

Basis for Qualified Opinion on Great Lakes Program

As described in items 2012-10 and 2012-11 in the accompanying Schedule of Findings and Questioned Costs, the City did not comply with requirements regarding Davis-Bacon, and Matching that are applicable to its Great Lakes Program. Compliance with such requirements is necessary, in our opinion, for the City to comply with requirements applicable to that program.

Adverse Opinion on Public Safety Partnership and Community Policing Grants

In our opinion, because of the significance of the noncompliance described in the *Basis for Adverse Opinion* paragraph, the City did not comply in all material respects, with the requirements referred to above that could have a direct and material effect on Public Safety Partnership and Community Policing Grants .

Qualified Opinion on Great Lakes Program

In our opinion, except for the noncompliance described in the *Basis for Qualified Opinion* paragraph, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Great Lakes Program for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

Other Matters

The City's response to the noncompliance findings identified in our audit is described in the accompanying Official Response and Corrective Action Plan. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the type of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

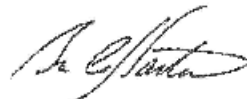
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
(Continued)

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2012-02, 2012-04, 2012-08, and 2012-09 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-12 to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Corrective Action Plan. The City's Corrective Action Plan was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the Corrective Action Plan.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Bruce Hartman
State Examiner

May 23, 2013

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The Schedule of Expenditures of Federal Awards and accompanying note presented were approved by management of the City. The schedule and note are presented as intended by the City.

CITY OF VALPARAISO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For The Year Ended December 31, 2012

Federal Grantor Agency Cluster Title/Program Title/Project Title	Pass-Through Entity or Direct Grant	Federal CFDA Number	Pass-Through Entity (or Other) Identifying Number	Total Federal Awards Expended
<u>Department of Justice</u>				
JAG Program Cluster				
Edward Byrne Memorial Justice Assistance Grant Program	Direct			
Police Justice Assistance Grant		16.738	2009-DJ-BX-1372	\$ 3,774
ARRA - Recovery Act - Edward Byrne Memorial				
Justice Assistance Grant	Direct			
(JAG) Program/Grants to Units of Local Government		16.804	2009-SB-B9-1904	17,468
Police Grant Equipment				
Total - JAG Program Cluster				21,242
Bulletproof Vest Partnership Program	Direct	16.607	1121-0235	4,200
Public Safety Partnership and Community Policing Grants	Direct			
Secure Our Schools		16.710	2010CKWX0624	209,701
Total - Department of Justice				235,143
<u>Department of Transportation</u>				
Highway Planning and Construction Cluster				
Highway Planning and Construction	Indiana Department of Transportation			
Land Use Study- Airport Zone Development		20.205	0900076	21,916
Other Intersection Improvement			0900020	97,176
Traffic Signal Modernization			0710065	52,812
Five Point Roundabout			0810295	62,669
Total - Highway Planning and Construction Cluster				234,573
Federal Transit Cluster				
Federal Transit Formula Grants	Northwestern Indiana Regional Planning Commission (NIRPC)			
Advertising Grant		20.507		26,864
V-Line			IN-95-X609, IN-90-X636	196,498
Chicago Dash			IN-95-X609, IN-90-X636, IN-90-X023	251,126
Total - Federal Transit Cluster				474,488
Highway Safety Cluster				
Occupant Protection Incentive Grants	Indiana Criminal Justice Institute	20.602		3,000
Alcohol Impaired Driving Countermeasures				
Incentive Grants I	City of Portage	20.601		1,550
Safety Belt Performance Grants	City of Portage	20.609		4,000
Total - Highway Safety Cluster				4,550
Total - Department of Transportation				717,611
<u>Environmental Protection Agency</u>				
Congressionally Mandated Projects	Direct	66.202		28,692
ARRA National Clean Diesel Emissions Reduction Program	Indiana Department of Transportation	66.039		
CMAQ Grant Bicycle Capital Equipment			DES # 1005650	23,314
CMAQ Grant for LPA Equipment			DES # 0901774	155,462
Total - ARRA National Clean Diesel Emissions Reduction Program				178,776
ARRA State Clean Diesel Grant Program	Indiana Department of Environmental Management	66.040	082912	83,866
Capitalization Grants for Clean Water State Revolving Funds	Indiana Finance Authority	66.458	WW 091286402	454,431
Nonpoint Source Implementation Grants	Save the Dunes Conservation Fund, Inc.	66.460	EDS # A305-8-189	58,822
Great Lakes Program	Save the Dunes Conservation Fund, Inc.	66.469	GL-00E00847-0	472,575
Total - Environmental Protection Agency				1,277,162
Total federal awards expended				\$ 2,229,916

The accompanying note is an integral part of the Schedule of Expenditures of Federal Awards.

CITY OF VALPARAISO
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Valparaiso and is presented in accordance with the cash and investment basis of accounting used in the preparation of the financial statement. Accordingly, the amount of federal awards expended is based on when the disbursement related to the award occurs except when the federal award is received on a reimbursement basis. In these instances the federal awards are considered expended when the reimbursement is received.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Section I – Summary of Auditor's Results

Financial Statement:

Type of auditor's report issued:	Adverse as to GAAP; Unmodified as to Regulatory Basis
Internal control over financial reporting:	
Material weaknesses identified?	yes
Significant deficiencies identified?	none reported
Noncompliance material to financial statement noted?	yes

Federal Awards:

Internal control over major programs:	
Material weaknesses identified?	yes
Significant deficiencies identified?	yes
Type of auditor's report issued on compliance for major programs:	
Unmodified:	
Highway Planning and Construction Cluster	
Capitalization Grants for Clean Water State Revolving Funds	
Qualified:	
Great Lakes Program	
Adverse:	
Public Safety Partnership and Community Policing Grants	
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	yes

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
16.710	Highway Planning and Construction Cluster
66.458	Public Safety Partnership and Community Policing Grants
66.469	Capitalization Grants for Clean Water State Revolving Funds
66.469	Great Lakes Program

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee?	no
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CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Section II – Financial Statement Findings

FINDING 2012-01 - INTERNAL CONTROLS AND COMPLIANCE OVER REPORTING FEDERAL EXPENDITURES IN THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

The City did not have a proper system of internal control in place to prevent or detect and correct errors on the Schedule of Expenditures of Federal Awards (SEFA). The City should have proper controls in place over the preparation of the SEFA to ensure accurate reporting of federal awards. Without a proper system of internal control in place that operates effectively, material misstatements of the SEFA could remain undetected.

The City has not established controls to effectively identify, manage, and report federal financial assistance. Under the current system, each department independently monitors their grant activities. Grant agreements are not provided to the Clerk-Treasurer, nor are any of the requests for advances or reimbursements of federal funds provided to the Clerk-Treasurer. Federal and state grant monitoring reports are prepared by each department based upon the records of grant activities maintained by the department. Separate funds and/or accounts within funds are not established by the Clerk-Treasurer to ensure grant activities can be readily identified, reconciled, monitored, and reported.

In failing to establish controls to effectively identify, manage, and report federal financial assistance, the City provided for audit a SEFA that materially misrepresented the federal assistance expended in 2012.

During the audit of the SEFA, we noted the following material errors:

The City initially reported federal expenditures in the amount of \$497,589. Audit adjustments to the Schedule of Federal Financial Assistance were \$1,732,327. The total of federal expenditures for 2012 has been determined to be \$2,229,916.

The City neglected to report the Great Lakes Program grant funds which passed through Save the Dunes Conservation Fund, Inc., in the amount of \$472,575. The receipts and disbursements associated with this grant were commingled with the receipts and disbursements of the Redevelopment Commission. Also commingled with the receipts and disbursements of the Redevelopment Commission, and thereby not reported by the City as federal expenditures, were the grant activities of the Highway Planning and Construction program. These federal expenditures totaled \$234,573.

The City failed to report expenditures associated with the Federal Transit Cluster which passed through Northwestern Indiana Regional Planning Commission totaling \$474,488. The receipts and disbursements associated with these grant awards were commingled with the locally derived receipts and disbursements of the V-line Fund, and the Dash Fund.

For each of these grant awards, requests were submitted to the grantor agencies by each of the City's departments responsible for monitoring these grants. The requests, when submitted, were not presented to the Clerk-Treasurer for monitoring the subsequent receipt of funds. Furthermore, the grant agreements were not provided to the Clerk-Treasurer, so that she could properly establish separate funds to account for the grant activities.

The Water Reclamation Utility received and spent \$454,431 in Capitalization Grants for Clean Water State Revolving Fund that was not reported on the SEFA. The Utility was unaware that any portion of the funding received originated from federal resources.

Additional errors were noted, totaling \$96,260.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

In the preparation of the Schedule of Federal Financial Assistance, the City also failed to adequately identify grants by their correct Catalog of Federal Domestic Assistance (CFDA) number and program name. The City also failed to correctly identify direct and pass-through entities. For most of the direct grants received by the police department, the "Valparaiso Police Department" was listed at the pass-through entity.

Audit adjustments were proposed, accepted by the City, and made to the SEFA presented in this report. These adjustments resulted in a presentation of the SEFA that is materially correct in relation to the financial statement.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Cities and Towns, Chapter 7)

OMB Circular A-133, Subpart C, section .300 states in part: "The auditee shall: . . . (d) Prepare appropriate financial statements, including the schedule of expenditures of Federal Awards in accordance with section .310."

OMB Circular A-133, Subpart C, section .310(b) states:

"Schedule of expenditures of Federal awards. The auditee shall also prepare a schedule of expenditures of Federal awards for the period covered by the auditee's financial statements. While not required, the auditee may choose to provide information requested by Federal awarding agencies and pass-through entities to make the schedule easier to use. For example, when a Federal program has multiple award years, the auditee may list the amount of Federal awards expended for each award year separately. At a minimum, the schedule shall:

- (1) List individual Federal programs by Federal agency. For Federal programs included in a cluster of programs, list individual Federal programs within a cluster of programs. For R&D, total Federal awards expended shall be shown either by individual award or by Federal agency and major subdivision within the Federal agency. For example, the National Institutes of Health is a major subdivision in the Department of Health and Human Services.
- (2) For Federal awards received as a subrecipient, the name of the pass-through entity and identifying number assigned by the pass-through entity shall be included.
- (3) Provide total Federal awards expended for each individual Federal program and the CFDA number or other identifying number when the CFDA information is not available.
- (4) Include notes that describe the significant accounting policies used in preparing the schedule.
- (5) To the extent practical, pass-through entities should identify in the schedule the total amount provided to subrecipients from each Federal program.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (6) Include, in either the schedule or a note to the schedule, the value of the Federal awards expended in the form of non-cash assistance, the amount of insurance in effect during the year, and loans or loan guarantees outstanding at year end. While not required, it is preferable to present this information in the schedule."

We recommended that the City establish controls to allow the City to adequately identify grant transactions and balances to allow for adequate reporting of federal expenditures at the end of a grant year.

Section III – Federal Award Findings and Questioned Costs

FINDING 2012-02 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS

Federal Agency: U.S. Department of Justice

Federal Program: Public Safety Partnership and Community Policing Grants

CFDA Number: 16.710

Federal Award Number and Year (or Other Identifying Number): 2010-CK-WX-0624

Pass-Through Entity: Direct

Management of the City of Valparaiso has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and a majority of the compliance requirements that have a direct and material effect to the program. This includes the Activities Allowed or Unallowed, Allowable Costs, Cash Management, Period of Availability, Suspension and Debarment and Reporting compliance requirements.

The City's management allowed the Director of School Safety and Grants Management to maintain exclusive control over the grant activities. The Clerk-Treasurer, Board of Public Works and Safety, and the City Council were not provided a copy of the grant agreement and its related grant budget, or a list of compliance requirements to insure that the City would adhere to compliance with grant requirements. The City did not assess the risks that material noncompliance could occur without detection by the City's management.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements related to the grant. A lack of an internal control system could also allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

***FINDING 2012-03 – COMPLIANCE RELATED TO PUBLIC SAFETY
AND COMMUNITY POLICING GRANTS – ALLOWABLE COSTS***

Federal Agency: U.S. Department of Justice

Federal Program: Public Safety Partnership and Community Policing Grants

CFDA Number: 16.710

Federal Award Number and Year (or Other Identifying Number): 2010-CK-WX-0624

Pass-Through Entity: Direct

On November 15, 2010, the Chief of Police advised the Clerk-Treasurer, through written communication, that "effective November 16, 2010, (a named individual) will be hired as the Director of School Safety and Grants Management for the Valparaiso Police Department. . . . This is a two year position beginning November 16, 2010 and ending on November 15, 2012. . . . Salary, benefits, and FICA will be paid from the 2010-2012 'Secure Our Schools' grant, #2010CKWX0624. (Named Individual) will be paid a gross wage of \$2,557.27 per pay period. The City's share of FICA will be paid out of the grant as well. . . ."

Per the grant budget (which was for a two year period) submitted with the grant application, which was approved by the U.S. Department of Justice, the City indicated budget categories and amounts:

<u>Budget Category</u>	<u>Quantity</u>	<u>Amount</u>
Personnel		
Salary – Project Coordinator/Grant Manager	1	\$ 96,000
Fringe Benefits		
Project Coordinator/Grant Manager	1	36,144

The Assistant Police Chief presented a breakdown of "Salary and Benefits" for the "Project Coordinator/Grant Manager" which indicated the salary would be, "\$40 per hour x 1,200 hours per year x 2."

To determine the bimonthly salary and benefits, the Assistant Police Chief and the Director used the amounts approved in the grant budget for personnel and fringe benefits and divided that total into equal bimonthly installments, which would cover the grant period. The Assistant Police Chief indicated that this individual should be paid a bimonthly salary of \$2,557.25, which included the benefits (insurance).

The Assistant Chief of Police also indicated this position was to be considered a part-time position. Part-time employees are not covered under the City's insurance nor do they earn vacation days and sick days. Furthermore, no other employees were compensated for not participating in the City's insurance program. Per the City's personnel policy, employees earn paid time off, with restrictions on eligibility, use, and reporting.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The Clerk-Treasurer complied with this directive and paid the bimonthly salary and benefits of \$2,557.25 based upon unsigned employee time sheets which were prepared and submitted by the Director. Attached to the time sheets were "Approval Certifications." The "Approval Certifications" are normally signed by the department head or their designee to "certify" that the employee worked the hours or dates indicated on the time sheet. The "Approval Certifications," with the Chief of Police's signature, attached to the Director's time sheets were copied from pay period to pay period. Because the "Approval Certifications" are dated, the dates were changed, but many of the dates on the approval certifications did not always coincide with the dates on the time sheets. Furthermore, some were dated prior to the end of the pay period.

During the audit period of January 1, 2012 to December 31, 2012, the Director of School Safety and Grants (Director) was paid a salary \$44,567.31. During the same period the Director was paid benefits totaling \$12,998.05. The benefits included insurance, car allowance, vacation days, and sick days. The employer's share Social Security and Medicare (FICA) on the Director's salary totaled \$4,454.16 for the audit period. The salary and benefits were paid bimonthly through the issuance of a payroll check.

Salary and benefits are allowable expenditures under the grant provided they comply with the City's and State's policies and procedures for establishing and paying compensation and benefits, and they are applied consistently to both federal and non-federal activities. The following are noncompliance items noted in performance of audit procedures:

1. Per the Accounting and Uniform Compliance and Guidelines Manual for Cities and Towns, Chapter 7, the following applies, "All compensation and benefits paid to officials and employees must be included in the salary ordinance adopted by the legislative body unless otherwise authorized by statute. Compensation should be made in a manner that will facilitate compliance with state and federal reporting requirements."

The City annually adopts a salary ordinance. Within the salary ordinance, salaries are adopted by job classification and position. The salary ordinances adopted by the City for 2011 and 2012 did not include a job classification or position for a grant director, manager, or project coordinator. Furthermore, nothing was provided to indicate compliance with the City's Personnel Policy Section 34.02, which establishes procedures and guidelines to be followed for establishing a new employment position.

2. Included in the benefits paid to the Director as a bimonthly salary was a \$200 per month car allowance.

Per the City's Personnel Policy, § 34.01 EMPLOYEE TRAVEL REIMBURSEMENT PROCEDURES.

(A) In the event that employees or officials of the city use their own vehicle while conducting city business, the employees and officials shall be reimbursed at a rate approved by the State Board of Accounts. In the event that an employee or official uses a municipally owned vehicle while on city business and is required to purchase fuel or incur related vehicular expenses, the employee or official shall be reimbursed for the actual expenses incurred.

Salary and benefits paid during the audit period of \$62,019.52 which were not paid in accordance with the City and State policies, and were not documented in compliance with federal guidelines over allowable costs are considered questioned costs.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-87, Attachment B, Section 8 states in part:

"8. Compensation for personal services.

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h.

b. Reasonableness. Compensation for employees engaged in work on Federal awards will be considered reasonable to the extent that it is consistent with that paid for similar work in other activities of the governmental unit. In cases where the kinds of employees required for Federal awards are not found in the other activities of the governmental unit, compensation will be considered reasonable to the extent that it is comparable to that paid for similar work in the labor market in which the employing government competes for the kind of employees involved. Compensation surveys providing data representative of the labor market involved will be an acceptable basis for evaluating reasonableness. . . .

d. Fringe benefits.

- (1) Fringe benefits are allowances and services provided by employers to their employees as compensation in addition to regular salaries and wages. Fringe benefits include, but are not limited to, the costs of leave, employee insurance, pensions, and unemployment benefit plans. Except as provided elsewhere in these principles, the costs of fringe benefits are allowable to the extent that the benefits are reasonable and are required by law, governmental unit-employee agreement, or an established policy of the governmental unit.
- (2) The cost of fringe benefits in the form of regular compensation paid to employees during periods of authorized absences from the job, such as for annual leave, sick leave, holidays, court leave, military leave, and other similar benefits, are allowable if: They are provided under established written leave policies; the costs are equitably allocated to all related activities, including Federal awards; and, the accounting basis (cash or accrual) selected for costing each type of leave is consistently followed by the governmental unit. . . .

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (5) The cost of fringe benefits in the form of employer contributions or expenses for social security; employee life, health, unemployment, and worker's compensation insurance (except as indicated in section 22, Insurance and indemnification); pension plan costs (see subsection e.); and other similar benefits are allowable, provided such benefits are granted under established written policies. Such benefits, whether treated as indirect costs or as direct costs, shall be allocated to Federal awards and all other activities in a manner consistent with the pattern of benefits attributable to the individuals or group(s) of employees whose salaries and wages are chargeable to such Federal awards and other activities. . . .
- h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.
- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. . . ."

We recommended that officials follow state and local policies regarding compensation and benefits paid to all employees. That the policies and procedures for documenting compensation paid be in conformity with federal requirements over allowable costs.

FINDING 2012-04 – INTERNAL CONTROLS AND COMPLIANCE RELATED TO PUBLIC SAFETY PARTNERSHIP AND COMMUNITY POLICING GRANTS EQUIPMENT MANAGEMENT

Federal Agency: U.S. Department of Justice
Federal Program: Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Federal Award Number and Year (or Other Identifying Number): 2010-CK-WX-0624
Pass-Through Entity: Direct

The Public Safety Partnership and Community Policing Grants for the Secure Our Schools Program (COPS SOS) allows a City to receive federal funds to assist school corporations with the purchase and development of school safety resources aimed at preventing school violence and individualized to the needs of the school.

The City, in conjunction with the Valparaiso Community School Corporation (School Corporation), assessed the needs of each school. Equipment was purchased and installed accordingly; however controls were not established to ensure the School Corporation was maintaining capital asset records in accordance with federal guidelines for equipment management.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

The City maintained a list, by individual school, of equipment purchased with the grant funds, but the listing did not include the serial number or other identification number, the source of the equipment, or who held title, which is necessary in order to comply with federal guidelines. The City also did not establish procedures for ensuring that a physical inventory is taken every two years, or procedures for monitoring changes to the equipment condition or location. The City did not develop a system for ensuring the School Corporation maintained adequate equipment records. Equipment purchases totaled \$386,543.25, which included items paid with both federal and local funds.

Because controls were not properly established, the City did not comply with federal compliance requirements applicable to equipment and real property management.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

28 CFR § 66.32(d) states in part:

"(d) *Management requirements.* Procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

- (1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
- (2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
- (3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.
- (4) Adequate maintenance procedures must be developed to keep the property in good condition.
- (5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return."

We recommended that the City's management establish controls to ensure the School Corporation is maintaining equipment records, which will comply with federal compliance guidelines over equipment and real property management.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

**FINDING 2012-05 – COMPLIANCE RELATED TO PUBLIC SAFETY
AND COMMUNITY POLICING GRANTS CASH MANAGEMENT**

Federal Agency: U.S. Department of Justice
Federal Program: Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Federal Award Number and Year (or Other Identifying Number): 2010-CK-WX-0624
Pass-Through Entity: Direct

Amounts received by the City for the Secure Our Schools grant were drawn down in advance.

When funds are drawn in advance of need, the City is required to monitor cash balances to ensure funds are only drawn as needed to cover current expenditures. Furthermore, grant funds cannot be drawn down after the end of the grant period.

The cash balance of the grant was \$18,510.06 at August 31, 2012, which was the end of the grant period. The final cash draw was requested on August 29, 2012, in the amount of \$2,832.57, which was receipted by the City on September 21, 2012. As of September 30, 2012, the cash balance was \$15,406.81. This cash balance was spent down over the period of October 1, 2012 through December 26, 2012. The excessive cash balance as of September 30, 2012, was used to cover future payrolls, for the Director of School Safety, which extended beyond the end of the grant period.

Cities who do not comply with grant requirements are at risk of losing future grant funding. The excess cash balance maintained at September 30, 2012, was deemed a material dollar amount in relation to the overall grant expenditures of \$209,701 for this grant; thus, this demonstrated material noncompliance in relation to the cash management compliance requirement.

28 CFR § 66.20 states in part:

"(b) The financial management systems of other grantees and subgrantees must meet the following standards: . . .

- (7) *Cash management.* Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must establish reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

We recommended that officials review compliance requirements related to cash management requirements to ensure compliance.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

***FINDING 2012-06 – COMPLIANCE RELATED TO PUBLIC SAFETY AND
COMMUNITY POLICING GRANTS PERIOD OF AVAILABILITY***

Federal Agency: U.S. Department of Justice
Federal Program: Public Safety Partnership and Community Policing Grants
CFDA Number: 16.710
Federal Award Number and Year (or Other Identifying Number): 2010-CK-WX-0624
Pass-Through Entity: Direct

The grant project period per the grant agreement was from September 1, 2010 to August 31, 2012. The last report filed with the U.S. Department of Justice by the Director was dated September 27, 2012. This "Federal Financial Report SF-425," which was prepared by the Director, reported "Federal share of expenditures" of \$288,839.57. The federal share of expenditures reported on September 27, 2012, included expenditures for salaries and benefits which were not paid until the period of October 1, 2012 through December 26, 2012, of \$15,406.81. The "Federal share of unliquidated obligations" was reported as \$0.

Per the City's appropriation ledger as of September 30, 2012, there were not any unliquidated obligations.

The Secure Our Schools Grant Manual states:

"Grant funds reflecting allowable project costs must be obligated before the end of the grant period. Obligated funds cover monies spent and expenses for all approved items in the FCM and FFM that your agency has incurred but not yet paid. Your agency has up to 90 days after the end of the grant period to request reimbursement for funds obligated."

The Director's salary and benefits paid from October 1, 2012 through December 26, 2012, would not have been considered an unliquidated obligation, as the salary applies to future services and could not have been "incurred" prior to August 31, 2012. Since the City did not have any unliquidated obligations, the period of availability would have ended on August 31, 2012.

On August 29, 2012, a letter was sent to the Clerk-Treasurer from the Assistant Chief of Police stating the following:

"The 'Secure Our School' grant is coming to an end, at this time there is still \$21,362.67 remaining. These funds will be used to compensate (name omitted) as she will be staying with the Valparaiso Police Department to close out the grant. This close out could take 3 to 3 1/2 months to complete. We would prefer that (name omitted) be paid in 6 equal installments of \$2,757.00, which includes her wages and benefits. Plus a 7th and last installment of \$3,064.46, this will deplete this grant. All regular payroll taxes should be deducted from the installments for Internal Revenue purposes. The balance of the funds (\$1,756.21) should be used by the City to pay FICA."

The City paid the Grant Administrator \$19,866.31 and remitted \$1,519.71 to the Internal Revenue Service for the Employer's share of FICA from September 1, 2012 to December 31, 2012, based upon the letter from the Assistant Chief of Police. Time sheets were not provided to the Clerk-Treasurer to support the payments after November 3, 2012. The Director also maintained records of her time worked, which were located in her grant files, but no such records were maintained after August 31, 2012. Because time and attendance records were not maintained, the above amounts have been included as questioned costs in Finding 2012-03.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

28 CFR § 66.23 states:

"(a) *General.* Where a funding period is specified, a grantee may charge to the award only costs resulting from obligations of the funding period unless carryover of unobligated balances is permitted, in which case the carryover balances may be charged for costs resulting from obligations of the subsequent funding period.

(b) *Liquidation of obligations.* A grantee must liquidate all obligations incurred under the award not later than 90 days after the end of the funding period (or as specified in a program regulation) to coincide with the submission of the annual Financial Status Report (SF-269). The Federal agency may extend this deadline at the request of the grantee."

The City, upon acceptance of a grant award, has a responsibility to comply with all requirements of the grant, including but not limited to the period of availability. When there is a significant lack of compliance with the period of availability, the City is at risk of having to reimburse the U.S. Department of Justice for amounts spent beyond the period of availability without a properly supported obligation.

We recommended that the City comply with all grant requirements applicable to the period of availability.

***FINDING 2012-07 – COMPLIANCE RELATED TO PUBLIC SAFETY
AND COMMUNITY POLICING GRANTS REPORTING***

Federal Agency: U.S. Department of Justice

Federal Program: Public Safety Partnership and Community Policing Grants

CFDA Number: 16.710

Federal Award Number and Year (or Other Identifying Number): 2010-CK-WX-0624

Pass-Through Entity: Direct

The federal financial reports (Federal Financial Report SF-425) submitted were incomplete and inaccurate.

Within Section 6 - Final Report, the City is to indicate if the report submitted is the final report on this grant with a "yes" or "no" answer. The City indicated it was not the final report; however, no further reports were submitted. A second copy was provided for audit, which indicated the report was updated as of December 20, 2012, with the only changes being:

The answer to the Final Report question was corrected to "Yes," and under Section 12 - Remarks, the following was typed "Final report for closeout, LM 12/20/12" LM is not a City employee or official.

Under Section 7 - Basis of Accounting, the City is required to indicate if the report being submitted is prepared in accordance with the cash or accrual basis of accounting. The City correctly indicated it was prepared on the cash basis of accounting, since that is the basis of their financial records.

Within Section 10 - Transactions under the first heading, "Federal Cash," the City is required to report the cash receipts, cash disbursements and cash on hand. For all of reports filed in 2012, the City reported "N/A" for each item in this section. The financial transactions and cash balances were not reported as required.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Within Section 10 - Transactions, under the second heading, "Federal Expenditures and Unobligated Balance," the City is required to report the cumulative federal expenditures, and the federal share of unliquidated obligations as of the date of the report. Since the City maintains cash records and reports on the cash basis of accounting, the cumulative federal expenditures in this section would agree to the cash disbursements reported in the "Federal Cash" section. The federal financial report covering the quarter July through September 2012, with a submission date of September 27, 2012, included in the "Federal share of expenditures" expenditures that did not occur in that quarter. The expenditures were overstated by \$15,406.81. These expenditures were payroll expenditures associated with the salary of the Director which were paid bimonthly in the months of October through December. The City reported \$0 as the federal share of unliquidated obligations as of the date of the report, which was correct per the records, as the anticipated payroll expenditures were not obligated as of September 30, 2012.

By not completing the "Federal Cash" section of the federal financial reports, the City failed to present an accurate and complete reporting of the grant activities which has a direct and material effect on the City's ability to comply with reporting requirements. Furthermore, the City misrepresented the financial transactions of the grant for the quarter ended September 30, 2012, by an amount deemed material to the overall grant expenditures.

Submission of incomplete and inaccurate financial reports could inhibit the City's ability to receive further federal financial assistance.

28 CFR § 66.20 states in part:

"(a) A State must expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its subgrantees and cost-type contractors, must be sufficient to—

- (1) Permit preparation of reports required by this part and the statutes authorizing the grant, and
- (2) Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

(b) The financial management systems of other grantees and subgrantees must meet the following standards:

- (1) *Financial reporting.* Accurate, current, and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant."

We recommended that the City prepare accurate and complete reports in accordance with the federal guidelines.

FINDING 2012-08 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO HIGHWAY PLANNING AND CONSTRUCTION GRANTS

Federal Agency: U.S. Department of Transportation
Federal Program: Highway Planning and Construction
CFDA Number: 20.205

Federal Award Number and Year (or Other Identifying Number): 0900076, 0900020, 0710065, 0810295
Pass-Through Entity: Indiana Department of Transportation

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Management of the City of Valparaiso has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and most of the compliance requirements that have a direct and material effect to the program. This includes the Activities Allowed or Unallowed, Allowable Costs, Cash Management, Period of Availability, Suspension and Debarment, and Reporting compliance requirements.

The City allowed the Engineering Department to maintain exclusive control over the grant. The Clerk-Treasurer, Board of Public Works and Safety, and the City Council did not have a copy of the grant agreement, grant budget, or list of compliance requirements to assist with determining and monitoring compliance with grant requirements. The City did not assess the risks that material noncompliance could occur without detection by City officials.

Separate funds or accounts within funds were not established for tracking expenditures from the various grant programs. The grant funds were commingled with funds of the Redevelopment Commission which included federal and non-federal funds. This lack of separation of funds places the City at risk for inadequate monitoring and reporting of grant activities.

Claims for reimbursement were not provided to the Clerk-Treasurer upon preparation to allow for adequate review and follow up.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

FINDING 2012-09 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO THE GREAT LAKES PROGRAM

Federal Agency: U.S. Environmental Protection Agency

Federal Program: Great Lakes Program

CFDA Number: 66.469

Federal Award Number and Year (or Other Identifying Number): GL-00E00847-0

Pass-Through Entity: Save The Dunes Conservation Fund, Inc.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Management of the City of Valparaiso has not established an effective internal control system, which would include segregation of duties, related to the grant agreement and all of the compliance requirements that have a direct and material effect to the program. This includes the following compliance requirements: Activities Allowed or Unallowed, Allowable Costs, Cash Management, Davis-Bacon, Matching, Period of Availability, Suspension and Debarment, and Reporting. The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of segregation of duties within an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system, including segregation of duties, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system, it is important to have proper segregation of duties. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program. The fundamental premise of segregation of duties is that an individual or small group of individuals should not be in a position to initiate, approve, undertake, and review the same activity.

Under the current structure, essentially one or two individuals within the same department, initiate all activities of the grant and are the only ones who maintain copies of the grant agreements. No one within the Clerk-Treasurer's Office, who is responsible for auditing the claims, has a list of allowable cost and activities to substantiate allowability. A separate fund or account within the fund had not been established to allow for adequate monitoring of grant activities by those responsible for initiating grant activities, and by those responsible for oversight of grant functions. Payroll reports and time sheets are too broad and basic to allow for users to determine and monitor grant related activities.

The failure to establish an effective internal control system places the City at risk of noncompliance with the grant agreement and the compliance requirements. A lack of an internal control system could also allow noncompliance with compliance requirements and allow the misuse and mismanagement of federal funds and assets by not having proper oversight, reviews, and approvals over the activities of the grant.

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Noncompliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the City.

We recommended that the City's management establish controls, including segregation of duties, related to the grant agreement and all compliance requirements that have a direct and material effect to the program.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

FINDING 2012-10 – COMPLIANCE RELATED TO GREAT LAKES PROGRAM DAVIS-BACON

Federal Agency: U.S. Environmental Protection Agency

Federal Program: Great Lakes Program

CFDA Number: 66.469

Federal Award Number and Year (or Other Identifying Number): GL-00E00847-0

Pass-Through Entity: Save the Dunes Conservation Fund, Inc.

Compliance with the Davis-Bacon Act requires payment of federal prevailing wage rates for construction, repair or alteration work funded in whole or in part with Great Lakes Program funds. The grantee must establish controls for monitoring wages paid by contractors. They must obtain recent and applicable wage rates from the U.S. Department of Labor and incorporate them into the construction contract. According to officials of the City of Valparaiso Engineering Department, who administer the program, no one in their office was monitoring compliance. Officials indicated that they normally require contractors to provide certified payrolls on a weekly basis; however, the engineering department did not have payroll records from the contractor to determine if prevailing wage rates were paid. Payroll records were requested and received by the Engineering Department upon our request. Because the payroll records were not provided weekly as required, the City Engineering Department could not have determined if contractors paid prevailing wages.

40 CFR 31.36 (i)(5) states in part:

"(i) *Contract provisions.* A grantee's and subgrantee's contracts must contain provisions in paragraph (i) of this section. Federal agencies are permitted to require changes, remedies, changed conditions, access and records retention, suspension of work, and other clauses approved by the Office of Federal Procurement Policy. . . .

- (5) Compliance with the Davis-Bacon Act (40 U.S.C. 276a to 276a-7) as supplemented by Department of Labor regulations (29 CFR part 5). (Construction contracts in excess of \$2000 awarded by grantees and subgrantees when required by Federal grant program legislation)"

29 CFR § 5.5(a) states in part:

"The Agency head shall cause or require the contracting officer to insert in full in any contract in excess of \$2,000 which is entered into for the actual construction, alteration and/or repair, including painting and decorating, of a public building or public work, or building or work financed in whole or in part from Federal funds or in accordance with guarantees of a Federal agency or financed from funds obtained by pledge of any contract of a Federal agency to make a loan, grant or annual contribution (except where a different meaning is expressly indicated), and which is subject to the labor standards provisions of any of the acts listed in § 5.1, the following clauses (or any modifications thereof to meet the particular needs of the agency, *Provided*, That such modifications are first approved by the Department of Labor):

- (1) *Minimum wages.* (i) All laborers and mechanics employed or working upon the site of the work (or under the United States Housing Act of 1937 or under the Housing Act of 1949 in the construction or development of the project), will be paid unconditionally and not less often than once a week, and without subsequent deduction or rebate on any account (except such payroll deductions as are permitted by regulations issued by the Secretary of Labor under the Copeland Act (29 CFR part 3)), the full amount of wages

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

and bona fide fringe benefits (or cash equivalents thereof) due at time of payment computed at rates not less than those contained in the wage determination of the Secretary of Labor which is attached hereto and made a part hereof, regardless of any contractual relationship which may be alleged to exist between the contractor and such laborers and mechanics. . . .

- (3) . . . (ii)(A) The contractor shall submit weekly for each week in which any contract work is performed a copy of all payrolls to the (write in name of appropriate federal agency) if the agency is a party to the contract, but if the agency is not such a party, the contractor will submit the payrolls to the applicant, sponsor, or owner, as the case may be, for transmission to the (write in name of agency). The payrolls submitted shall set out accurately and completely all of the information required to be maintained under 29 CFR 5.5(a)(3)(i), except that full social security numbers and home addresses shall not be included on weekly transmittals."

By not ensuring receipt and verification of payment of prevailing wages on a weekly basis as required, the City was in noncompliance with Davis-Bacon requirements. Noncompliance with grant requirements puts the City at risk of not receiving future funding.

We recommended that the City ensure contracts which will be paid with federal funds include prevailing wage language as required by the federal guidelines. Furthermore, the City needs to address procedures to ensure certified wage reports are submitted by contractors and adequately reviewed for compliance with Davis-Bacon compliance guidelines.

***FINDING 2012-11 – COMPLIANCE RELATED TO GREAT LAKES
PROGRAM IN-KIND MATCHING REQUIREMENTS***

Federal Agency: U.S. Environmental Protection Agency
Federal Program: Great Lakes Program
CFDA Number: 66.469
Federal Award Number and Year (or Other Identifying Number): GL-00E00847-0
Pass-Through Entity: Save the Dunes Conservation Fund, Inc.

Per the Subaward Agreement between Save the Dunes Conservation Fund, Inc., and the City of Valparaiso, the City was required to provide a match of \$126,100 for a grant award of \$472,575. The City was to provide in-kind services in the form of completing design, bidding, and construction work. Per the Subaward Agreement, if the City "tracked in-kind services did not amount to \$126,100, Valparaiso will provide the remaining amount of the match in cash." The effective term of the Agreement is from October 11, 2011 through September 1, 2013.

As of December 31, 2012, the City paid for construction services on the project, which were not reimbursed by the grant, totaling \$93,131.61. This amount was appropriately used by the City as part of its local match. The City also reported \$28,091.00 in design and construction engineering, as well as bidding, and other services performed by employees of the City's engineering department. To determine the value of the services, the engineering department used the salaries paid to the various employees; however, the hours worked on the project were not documented in accordance with federal guidelines for supporting allowable costs related to compensation.

The hours reported and used to compute the in-kind match were based upon estimates of the engineering department. Time sheets and other payroll records do not document the hours spent on individual projects. The engineering department was not aware of the requirements related to documentation of hours for allowable costs per Circular A-87, Attachment B (2 CFR Appendix B).

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

Because the hours reported and used to compute the in-kind match were based upon estimates, and the time sheets and other payroll records do not support the hours used to provide the in-kind match, the \$28,091 included by the City as an in-kind match is considered a questioned cost of the grant. Furthermore, the \$28,091 is material in relation to the overall grant award resulting in material noncompliance with the compliance requirements related to matching.

OMB Circular A-87, Attachment B, Section 8 states in part

"8. Compensation for personal services.

a. General. Compensation for personnel services includes all remuneration, paid currently or accrued, for services rendered during the period of performance under Federal awards, including but not necessarily limited to wages, salaries, and fringe benefits. The costs of such compensation are allowable to the extent that they satisfy the specific requirements of this and other appendices under 2 CFR Part 225, and that the total compensation for individual employees:

- (1) Is reasonable for the services rendered and conforms to the established policy of the governmental unit consistently applied to both Federal and non-Federal activities;
- (2) Follows an appointment made in accordance with a governmental unit's laws and rules and meets merit system or other requirements required by Federal law, where applicable; and
- (3) Is determined and supported as provided in subsection h. . . .

h. Support of salaries and wages. These standards regarding time distribution are in addition to the standards for payroll documentation.

- (1) Charges to Federal awards for salaries and wages, whether treated as direct or indirect costs, will be based on payrolls documented in accordance with generally accepted practice of the governmental unit and approved by a responsible official(s) of the governmental unit.
- (2) No further documentation is required for the salaries and wages of employees who work in a single indirect cost activity.
- (3) Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semi-annually and will be signed by the employee or supervisory official having firsthand knowledge of the work performed by the employee. . . .
- (4) Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h.(5) of this appendix unless a statistical sampling system (see subsection 8.h.(6) of this appendix) or other substitute system has been approved by the cognizant Federal agency. Such documentary support will be required where employees work on:

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

- (a) More than one Federal award,
 - (b) A Federal award and a non-Federal award,
 - (c) An indirect cost activity and a direct cost activity,
 - (d) Two or more indirect activities which are allocated using different allocation bases, or
 - (e) An unallowable activity and a direct or indirect cost activity.
- (5) Personnel activity reports or equivalent documentation must meet the following standards:
- (a) They must reflect an after-the-fact distribution of the actual activity of each employee,
 - (b) They must account for the total activity for which each employee is compensated,
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods, and
 - (d) They must be signed by the employee. . . .
- (7) Salaries and wages of employees used in meeting cost sharing or matching requirements of Federal awards must be supported in the same manner as those claimed as allowable costs under Federal awards."

We recommended that the City review their time sheets and other payroll records to ensure adequate reporting of time worked by project, when federal funds are used, or when local payments will be used as a match for a federally funded project.

FINDING 2012-12 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE A DIRECT AND MATERIAL EFFECT TO CAPITALIZATION GRANTS FOR CLEAN WATER STATE REVOLVING FUNDS

Federal Agency: U.S. Environmental Protection Agency
Federal Program: Capitalization Grants for Clean Water State Revolving Funds
CFDA Number: 66.458
Federal Award Number and Year (or Other Identifying Number): WW 091286402
Pass-Through Entity: Indiana Finance Authority

Management of the City of Valparaiso Water Reclamation Utility (Utility) has not established an effective internal control system, which would include monitoring activities of paid consultants, related to the grant agreement and some of the compliance requirements that have a direct and material effect to the program. This includes the compliance requirements for Davis-Bacon (prevailing wages), Equipment and Real Property Management, Period of Availability, and Suspension and Debarment. The failure to establish an effective internal control system places the Utility at risk of noncompliance with the grant agreement and the compliance requirements. This lack of an effective internal control system could allow the misuse and mismanagement of federal funds and assets by not having proper oversight, and reviews over the activities of the grant.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

An internal control system should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis.

Davis-Bacon and Suspension and Debarment:

In order to have an effective internal control system, the activities of independent consultants need to be monitored by the City's management. This is accomplished by ensuring there is proper oversight, reviews, and approvals take place, as well as ensuring the governing Board is informed about any deficiencies to allow appropriate follow up action will to be taken. The Utility did not have a system in place to ensure the work product provided by the consultant, employed by the Indiana Finance Authority was in compliance with Davis-Bacon and Suspension and Debarment and that the work product was adequate, complete, and accurate. The Utility maintained the information in a binder and there is no evidence that it was reviewed by Utility management for its accuracy and if all compliance requirements were addressed. Management of the Utility was not aware that the consultant reviewed the Excluded Parties Listing System Website to ensure vendors paid from grant funds were not suspended or debarred.

Equipment and Real Property Management:

The Utility had not effectively established controls to allow for the identification of assets purchased with federal funds within the detail capital asset records, which is necessary in order to comply with federal guidelines over equipment and real property management. Furthermore, periodic inventories of capital asset records are not performed. Performing periodic inventories of capital assets allows officials to monitor the accuracy and completeness of the records on capital assets. Such inventories would also allow for adequate monitoring and reporting of disposals of assets.

Because effective controls over equipment and real property management have not been established, the Utility may not recognize the disposal, and they may not comply with federal guidelines covering the disposal of assets acquired with federal funds.

Period of Availability:

The Utility did not establish controls to ensure employees and management were aware of the period of availability. Management relies upon a financial consultant, and the Indiana Finance Authority to advise them on such issues.

The Indiana Finance Authority maintains the funds, paying the contractor's directly from a trust account. The Indiana Finance Authority requires the consultant to provide documentation directly to them on the compliance with Davis-Bacon, and Suspension and Debarment compliance, as well as any reports on deficiencies. Thus, it is unlikely that the Utility would be noncompliance with the compliance requirements of Davis-Bacon, Suspension and Debarment, and Period of Availability. It is also unlikely that the Utility would dispose of a combined sewer overflow plant to place the Utility in noncompliance with the Equipment and Real Property Management compliance requirement. Thus, these control deficiencies are considered significant deficiencies.

An internal control system which includes monitoring of consultants, should be designed and operate effectively to provide reasonable assurance that material noncompliance with the grant agreement, or a type of compliance requirement of a federal program will be prevented, detected and corrected, on a timely basis. In order to have an effective internal control system it is important to be properly informed of the grant compliance requirements and ensure consultants are monitored. This is accomplished by making sure proper oversight, reviews, and approvals take place and to have a separation of functions over certain activities related to the program.

CITY OF VALPARAISO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
(Continued)

OMB Circular A-133, Subpart C, section .300 states in part:

"The auditee shall: . . . (b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its Federal programs."

The failure to establish internal controls could enable material noncompliance to go undetected. Non-compliance of the grant agreement or the compliance requirements that have a direct and material effect to the program could result in the loss of federal funds to the Utility.

We recommended that the Utility's management establish controls to effectively monitor the activities of consultants employed to ensure compliance related to the grant agreement and compliance requirements that have a direct and material effect to the program.

Corrective Action Plan

City of Valparaiso

City Administration

Prepared by: Bill Oeding, City Administrator

This Corrective Action Plan goes into effect on August 1, 2013

FINDING 2012-01 -- INTERNAL CONTROLS AND COMPLIANCE OVER REPORTING FEDERAL EXPENDITURES IN THE SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE

CORRECTIVE ACTION PLAN

Action Item #1:

City Administration has contracted with a certified federal grant administrator to assist in the tracking and management of all State of Indiana, Federal and independent grants as a means of meeting all grant requirement and compliance. Grant Administrator will communicate with all departments applying for and receiving grants and will have a direct link to the department heads. The Grant administrator will review each project before, during after completion of the project.

Action Item #2:


Grant Administrator, along with city administration, will establish a grant approval process, education of requirements and record keeping necessary to be in compliance with each grant awarded to the city.

Action Item #3:

Grant Administrator, along with city administration, will establish an accounting process and procedure with the Clerk Treasure's office, which will allow for tracking of Federal funds separate from other funds, thus avoiding comingling of funds.

Action Item#4

Grant Administrator, along with city administration, will establish an accounting process and procedure with the Clerk Treasure's office, which will allow for tracking of in-kind donations using federal guidelines and accounting procedures.

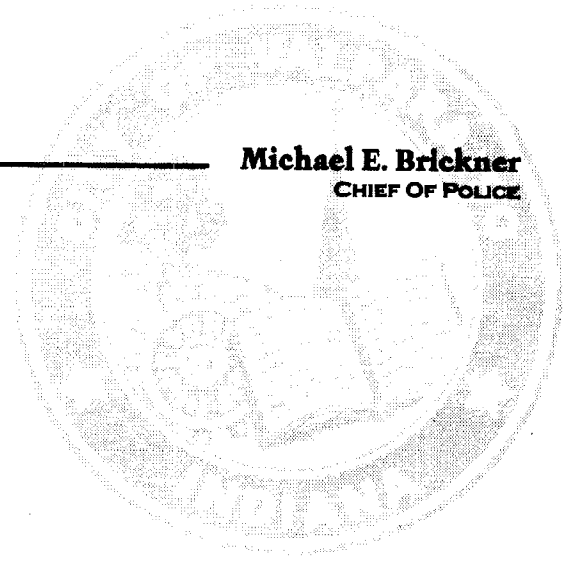


7/8/13



VALPARAISO POLICE DEPARTMENT

Michael E. Brickner
CHIEF OF POLICE



CORRECTIVE ACTION PLAN

EFFECTIVE DATE: JULY 2, 2013

FINDING 2012-02 – INTERNAL CONTROLS:

All grants shall be managed by the City of Valparaiso, Indiana Clerk-Treasurer's Office. All grants shall be approved by the Valparaiso City-Clerk Treasurer. Copies of all grant agreements shall be provided to the City of Valparaiso Clerk-Treasurer's office, the Board of Public Works and Safety and the City Council within 5 days of receipt thereof. No grant shall be accepted and no grant agreements signed without prior approval of the City of Valparaiso Clerk-Treasurer's Office, Board of Public Works and Safety and the City Council.

The Chief and/or Assistant Chief of Police and any individual (employee or contract) hired by the City of Valparaiso to perform any duties under any grant shall meet with the City of Valparaiso Clerk Treasurer to clarify all issues relating to allowable activities as well as allowable and unallowable costs prior to the performance of any duties related to any grant. Further, the Chief and/or Chief of Police shall meet with the Valparaiso City Clerk Treasurer to clarify and have approved all activities to be provided by the grant, approved cash management methods, period of availability for the grant, as well as suspension, debarment and reporting compliance requirements. In addition to grant requirements, all grants must comply with and be carried out in accordance with City of Valparaiso policies, protocols and ordinances.

Any individual (employee or contractor) hired to perform duties under any grant by the City of Valparaiso on behalf of the Valparaiso Police Department shall be required to report directly to the City of Valparaiso Clerk Treasurer, Chief of Police and Assistant Chief of Police. No payments or purchases made through any grant shall be made by the individual so hired without prior approval of the City Clerk-Treasurer, Chief of Police and Assistant Chief of Police. No reports shall be filed by the individual so hired without prior approval of the City of Valparaiso Clerk-Treasurer, Chief of Police and Assistant Chief of Police. In addition to the grant requirements, all report filings shall comply with and be carried out in accordance with the City of Valparaiso policies, protocols and ordinances.

The Valparaiso of Indiana Clerk-Treasurer shall provide training to the Chief of Police, Assistant Chief of Police and any individual (employee or contractor) hired by the City of Valparaiso on behalf of the Police

Department in any way performing any duties relating to any grant to assure that all grant requirements as well as City of Valparaiso policies, procedures and ordinances are fully complied with. Specific attention shall be made to accounts payable, accounts receivable and grant specific reporting requirements. No individual shall perform any duties until such training has taken place and no reports shall be filed without thorough scrutiny.

The Chief of Police and Assistant Chief of Police shall closely monitor all activities performed by any individuals working with any grant. The City of Valparaiso Clerk-Treasurer shall have final approval of all activities relating to any grant.

FINDING 2012-03 - ALLOWABLE COSTS:

The City of Valparaiso Clerk-Treasurer shall have final approval or denial of all allowable and unallowable costs. All participants are to meet to clearly define what is and what is not an acceptable cost or activity under any grant.

Prior to hiring any individual (employee or contractor) by the City of Valparaiso on behalf of the Police Department, the following shall occur:

- In addition to grant requirements, all individuals hired shall be hired under the policies, protocols and ordinances of the City of Valparaiso, Indiana.
- All individuals hired shall have clearly defined parameters with regarding to being full or part time.
- All individuals hired shall have a clear designation with regard to being paid a salary or an hourly rate. Those amounts shall be clearly defined.
- The length of time that said funds shall be paid shall be clearly defined.
- All individuals hired shall turn in timesheets with original signatures to the Police Department designee. The designee shall verify the dates, times and activities on all timesheets. The Chief of Police and/or Assistant Chief of Police shall then verify that the timesheets are correct and shall approve the timesheets by affixing their signature. All signatures must be original signatures. No copies of signatures shall be accepted.
 - All timesheets shall clearly show the days and numbers of hours worked. This is to be done for both hourly and salary individuals.
 - No monies shall be paid without full compliance.
 - All timesheets shall include an overview of duties performed to assure that all duties performed were grant compliant.
 - No monies shall be paid without full compliance.
- All individuals hired shall have a clearly defined position or job description prior to being hired and receiving any compensation including the number of hours to be worked, whether or not benefits will be paid and specifically what those hours and benefits are, as well as a clear and defined description of the duties to be performed.
 - The City Clerk-Treasurer, Chief of Police and Assistant Chief of Police shall verify that all monies paid to an employee or contractor, including benefits and expenses, are

compliant with grant requirements and City of Valparaiso policies, procedures and ordinances.

- o All information provided shall be fully compliant with grant requirements and City of Valparaiso policies, procedures and ordinances.

FINDING 2012-04 - EQUIPMENT MANAGEMENT:

Any equipment purchased under any grant shall be inventoried. An inventory number and/or serial number shall be assigned to the equipment purchased, the location of the equipment shall be listed, the tag number shall be noted, the date of purchase shall be listed, the amount of purchase shall be listed, and whether or not the piece of equipment is or is not in service will be listed. Any additional grant requirements for said equipment shall be followed as shall the policies, procedures and ordinances regarding equipment for the City of Valparaiso, Indiana shall be followed.

FINDING 2012-05 – COMPLIANCE

All grant funds shall be drawn down in accordance and in compliance with grant requirements. No grant funds shall be drawn down after the end of the allowable grant period.

FINDING 2012 -06 – COMPLIANCE

No monies shall be paid after the end of the allowable grant period. All funds paid during the grant period shall be approved by the City of Valparaiso Clerk-Treasurer, Chief of Police and Assistant Chief of Police and shall follow grant requirements and the City of Valparaiso policies, protocols and ordinances.

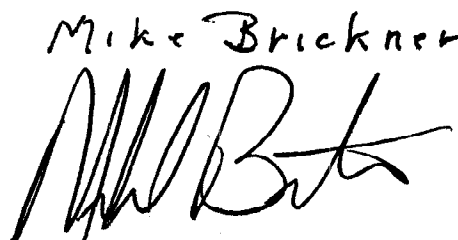
FINDING 2012-07 - REPORTING

Any individual (employee or contractor) hired to perform duties under any grant by the City of Valparaiso on behalf of the Valparaiso Police Department shall be required to report directly to the City of Valparaiso Clerk Treasurer, Chief of Police and Assistant Chief of Police. No drawdown of funds, payments or purchases made through any grant shall be made by the individual so hired without prior approval of the City Clerk-Treasurer, Chief of Police and Assistant Chief of Police. No reports shall be filed by the individual so hired without prior approval of the City of Valparaiso Clerk-Treasurer, Chief of Police and Assistant Chief of Police. In addition to the grant requirements, all report filings shall comply with and be carried out in accordance with the City of Valparaiso policies, protocols and ordinances.

Dated this 2nd day of July, 2013.

Richard L. Spicer


Assistant Chief of Police
Valparaiso Police Department


Chief of Police
Valparaiso Police Dept.

Corrective Action Plan

City of Valparaiso

Engineering Department

Prepared by: Tim Burkman, Engineering Director

FINDING 2012-08 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE DIRECT AND MATERIAL EFFECT TO HIGHWAY PLANNING AND CONSTRUCTION CLUSTER GRANTS

CORRECTIVE ACTION PLAN FOR 2012-08: The City of Valparaiso will implement the following action items to improve the internal control system managing the compliance requirements of Highway Planning and Construction Cluster Grants.

Action Item #1: Engineering Director Tim Burkman will maintain electronic files on the city's shared server for each grant so that the Clerk-Treasurer, Board of Public Works and Safety, Redevelopment Commission, and City Council can have access to a copy of the grant agreement, grant budget, or list of compliance requirements. A hard copy of these documents will also be placed on file with the Clerk-Treasurer's office.

Action Item #2: Chief Deputy Clerk-Treasurer Karen Conover will establish separate accounts for each grant for the purposes of tracking expenditures from the various grant programs. If local funds matching the federal grant are provided by the City's Redevelopment Commission, the Redevelopment Commission Executive Director, Stu Summers, will ensure that funds provided by the commission are appropriated into the proper account.

Action Item #3: Engineering Director Tim Burkman will date, initial, and note "reviewed" on all invoices submitted with a claim voucher for reimbursement. Tim's signature on the claim voucher will notate that the amounts contained within the claim voucher have been reviewed for eligibility and accuracy. Engineering Administrator Diana Campolattara will provide a secondary review of all invoices and claim vouchers and initial them if determined to be complete and in accordance with the grant requirements.

Action Item #4: Engineering Administrator Diana Campolattara will provide copies of the claims that have been submitted for reimbursement to the Clerk-Treasurer's office for review and anticipation of the federal funds to be received. Once those funds have been received, Diana will check with Chief Deputy Clerk-Treasurer Karen Conover to ensure that the funds have been placed into the appropriate account that was established for the specific grant, and notate the date received on the Engineering Department's copy of the claim voucher for record keeping.

Action Item #5: Engineering Administrator Diana Campolattara will check the System for Award Management's website (www.SAM.gov) to ensure that any consultants paid under the grant agreement have not been debarred or suspended from work with the federal government. Diana will provide a copy of the printed report indicating the status of the firm to Engineering Director Tim Burkman. Tim will review the report, date and initial prior to placing it in the grant record file. The file will be accessible to the Clerk-Treasurer's Office for verification.

Implementation of Action Items 1-5: These corrective actions will be implemented on July 1, 2013 and the procedures followed on all future federally funded grant projects.

FINDING 2012-09 – INTERNAL CONTROLS OVER COMPLIANCE REQUIREMENTS THAT HAVE DIRECT AND MATERIAL EFFECT TO THE GREAT LAKES PROGRAM

CORRECTIVE ACTION PLAN FOR 2012-09: The City of Valparaiso will implement the following action items to improve the internal control system managing the compliance requirements of the Great Lakes Program.

Action Item #1: Engineering Director Tim Burkman will maintain electronic files on the city's shared server for each grant so that the Clerk-Treasurer, Valparaiso City Utilities Board of Directors, and City Council can have access to a copy of the grant agreement, grant budget, or list of compliance requirements. A listing of allowable costs and activities to substantiate eligibility will be included within these documents. A hard copy of these documents will also be placed on file with the Clerk-Treasurer's office.

Action Item #2: Deputy Clerk-Treasurer Dale Brewer will establish separate accounts for each grant for the purposes of tracking expenditures from the various grant programs upon notification by the Engineering Department. If local funds matching the federal grant are provided by the Valparaiso City Utilities Board of Directors, Chief Deputy Engineer Adam McAlpine, will ensure that funds provided by the board are appropriated into the proper account.

Action Item #3: Chief Deputy Engineer Adam McAlpine will date, initial, and note "reviewed" on all invoices submitted with a claim voucher for reimbursement after reviewing for accuracy and eligibility. Engineering Director Tim Burkman will sign the claim voucher, after providing a secondary review.

Action Item #4: Engineering Administrator Diana Campolattara will provide copies of the claims that have been submitted for reimbursement to the Clerk-Treasurer's office for review and anticipation of the federal funds to be received. Once those funds have been received, Diana will check with Deputy Clerk-Treasurer Dale Brewer to ensure that the funds have been placed into the appropriate account that was established for the specific grant, and notate the date received on the Engineering Department's copy of the claim voucher for record keeping.

Action Item #5: Engineering Administrator Diana Campolattara will check the System for Award Management's website (www.SAM.gov) to ensure that any consultants paid under the grant agreement have not been debarred or suspended from work with the federal government. Diana will provide a copy of the printed report indicating the status of the firm to Engineering Director Tim Burkman. Tim will review the report, date and initial prior to placing it in the grant record file. The file will be accessible to the Clerk-Treasurer's Office for verification.

Action Item #6: Chief Deputy Engineer Adam McAlpine will ensure that payroll reports and time sheets clearly identify the specific efforts spent by individuals on grant related activities and that those efforts

are in compliance with grant requirements. Adam will initial and date reports prior to submitting them to Engineering Director Tim Burkman. Tim will also initial and date the reports once reviewed and place them in the grant record file. The file will be accessible to the Clerk-Treasurer's Office for verification.

Implementation of Action Items 1-6: These corrective actions will be implemented on July 1, 2013 and the procedures followed on all future federally funded grant projects.

FINDING 2012-10 – COMPLIANCE RELATED TO GREAT LAKES PROGRAM DAVIS BACON

CORRECTIVE ACTION PLAN FOR 2012-10: The City of Valparaiso will implement the following action items to ensure that contracts paid with federal funds are in compliance with federal requirements concerning prevailing wage rates.

Action Item #1: Chief Deputy Engineer Adam McAlpine will request applicable wage rates from the U.S. Department of Labor and incorporate them into all construction contracts involving federal funds. All federally funded contracts will require contractors to submit certified payrolls on a weekly basis.

Action Item #2: Engineering Administrator Diana Campolattara will check the certified payrolls against the established wage rates for the project, and initial and date the records if acceptable. Chief Deputy Engineer Adam McAlpine will provide a secondary review and initial and date accordingly, prior to approving any invoices for payment. The reviewed certified payrolls will be kept in the grant record file. The file will be accessible to the Clerk-Treasurer's Office for verification.

Implementation of Action Items 1-2: These corrective actions will be implemented on July 1, 2013 and the procedures followed on all future federally funded grant projects.

FINDING 2012-11 – COMPLIANCE RELATED TO GREAT LAKES PROGRAM IN-KIND MATCHING REQUIREMENTS

CORRECTIVE ACTION PLAN FOR 2012-10: The City of Valparaiso will implement the following action items to provide better tracking of in-kind matching requirements associated with federally funded grants.

Action Item #1: When time spent by members of the Engineering Department is eligible to be claimed as an in-kind match for a federal grant, Chief Deputy Engineer Adam McAlpine will create detailed reports, indicating individuals' hourly breakdowns of work performed on the project. The breakdown will indicate hours worked each day on the grant funded project versus time spent on other tasks. For example, if 3 hours of effort were logged on the grant project on a particular day, the project specific time sheet would reflect this and also indicate that 4 hours were spent on other tasks not related to the grant project. Adam will initial and date the time sheets on a bi-monthly basis, following the schedule of the city's standard time sheet submittals. Engineering Director Tim Burkman will also review the time

sheets, initial and date, and place them in the grant record file. The file will be accessible to the Clerk-Treasurer's Office for verification.

Implementation of Action Item 1: This corrective action will be implemented on July 1, 2013 and the procedure followed on all future federally funded grant projects.

Submitted By:

Handwritten signature of Tim Burkman and the date 7/1/13, underlined.

Tim Burkman, P.E.
Engineering Director
City of Valparaiso



Valparaiso City Utilities

205 Billings Street
Valparaiso, Indiana 46383

"Water is our Most Valuable Natural Resource"

June 6, 2013

State Board of Accounts
302 West Washington Street
Room E418
Indianapolis, IN 46204-2769

Re: Finding 2012-12 – Internal controls over compliance requirements that have a direct and material effect to capitalization grants for clean water state revolving funds

Corrective Action Plan for certain control deficiencies are as follows:

Valparaiso City Utilities in the future will be familiar with and adhere to the most recent version of OMB Circular A-133 when entering into capitalization grants for clean water state revolving funds.

OMB Circular A-133 Compliance Supplement 2012 is 1,552 pages and believed to be the most recent version. OMB Circular A-133 Compliance Supplement 2012 can be accessed online at www.whitehouse.gov/omb/circulars/a133_compliance_Supplement_2012.

Valparaiso City Utilities should pay particular attention to Part 4 – Environmental Protection Agency (EPA) and Part 6 – Internal Control.

Part 6 outlines the duties and responsibilities of management to insure that internal controls are in place so that compliance requirements will be met.

This corrective action plan goes into effect immediately.

Respectfully submitted,

Richard S. Freeman
Controller

CITY OF VALPARAISO
EXIT CONFERENCE

The contents of this report were discussed on July 1, 2013, with Sharon Emerson Swihart, Clerk-Treasurer; Bill Oeding, City Administrator; Tim Daly, member of the Common Council; and Jon Costas, Mayor and President of the Board of Public Works and Safety. The officials concurred with our audit findings.